AR67

Gulf Canada Resources

Winspear Business Reference Library
University of Alberta
1-18 Business Building
Edmonton, Alberta T6G 2R6

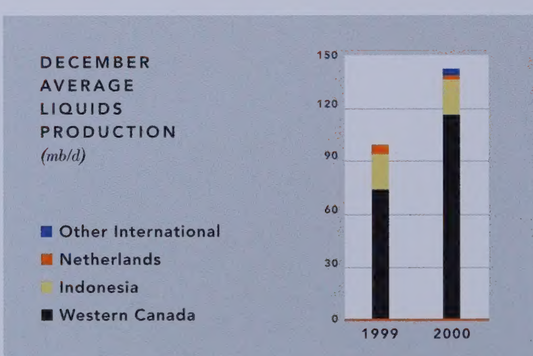
we said.

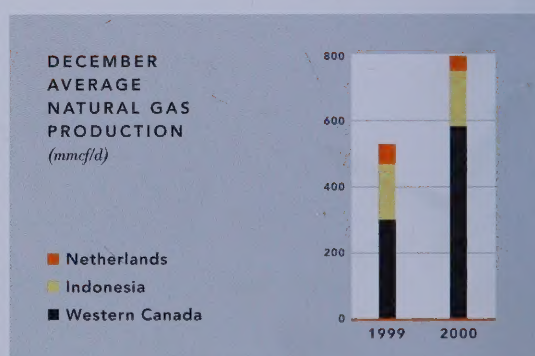
we did.

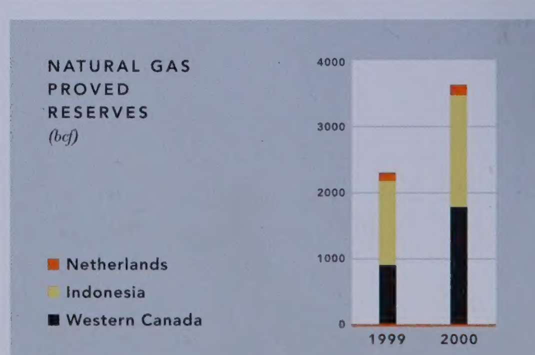
Gulf has had a truly exceptional year. We said that 2000 would mark the start of a new growth phase for Gulf Canada. Our results clearly demonstrate that we have begun an era of disciplined, profitable growth.

FINANCIAL	2000	1999	1998
Cash generated from continuing operations (millions of dollars)	1,095	517	371
Per share (dollars)	2.78	1.39	0.98
Earnings (loss) for the year (millions of dollars)	148	(172)	(548)
Per share (dollars)	0.30	(0.58)	(1.66)
Average number of shares (millions)	381	349	348
VOLUMES (gross sales)			
Crude oil and natural gas liquids (thousands of barrels per day)	99	101	125
Natural gas (millions of cubic feet per day)	542	554	476
Total sales (thousands of barrels oil equivalent per day)	167	172	179
GROSS PROVED RESERVES			
Crude oil and natural gas liquids (millions of barrels)	658	431	507
Natural gas (billions of cubic feet)	3,620	2,296	2,455
Total gross proved reserves (millions of barrels of oil equivalent – NA gas at 10:1)	1,142	753	838

we're better balanced







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Gulf Canada Resources Limited is a senior independent Canadian oil and natural gas exploration and development company with worldwide operations. Gulf operates in Western Canada, The Netherlands, Ecuador and Indonesia, through its 72 per cent ownership of Gulf Indonesia Resources Limited.

Gulf Canada Resources Limited is listed on the Toronto Stock Exchange in Canada and on the New York Stock Exchange in the United States. The symbol for the Company is GOU.

2000 HIGHLIGHTS

Gulf ended 2000 as a fundamentally stronger company. The acquisition of Crestar Energy in the fourth quarter provided a step change in Gulf's production.

- The acquisition of Crestar ended the program of debt reduction undertaken in 1998 and marked the beginning of an era of disciplined, profitable growth. The transaction was only possible because of a solid improvement in Gulf's underlying performance.
- Three years of active portfolio management and the Crestar acquisition resulted in a portfolio more balanced between oil and gas.
- Gulf gas production rose by over 50 per cent during the year to a December average of 795 mmcf/d, making Gulf one of the largest independent gas producers in Canada.
- A combination of rising commodity prices and increased production resulted in a 112 per cent increase in Gulf's annual cash generation, to over $1 billion.
- Gulf's worldwide finding and development costs of $2.65/boe is top quartile performance in the industry.

for definable growth.

North American gas production increased

94%

Indonesia increase in proved reserves

27%

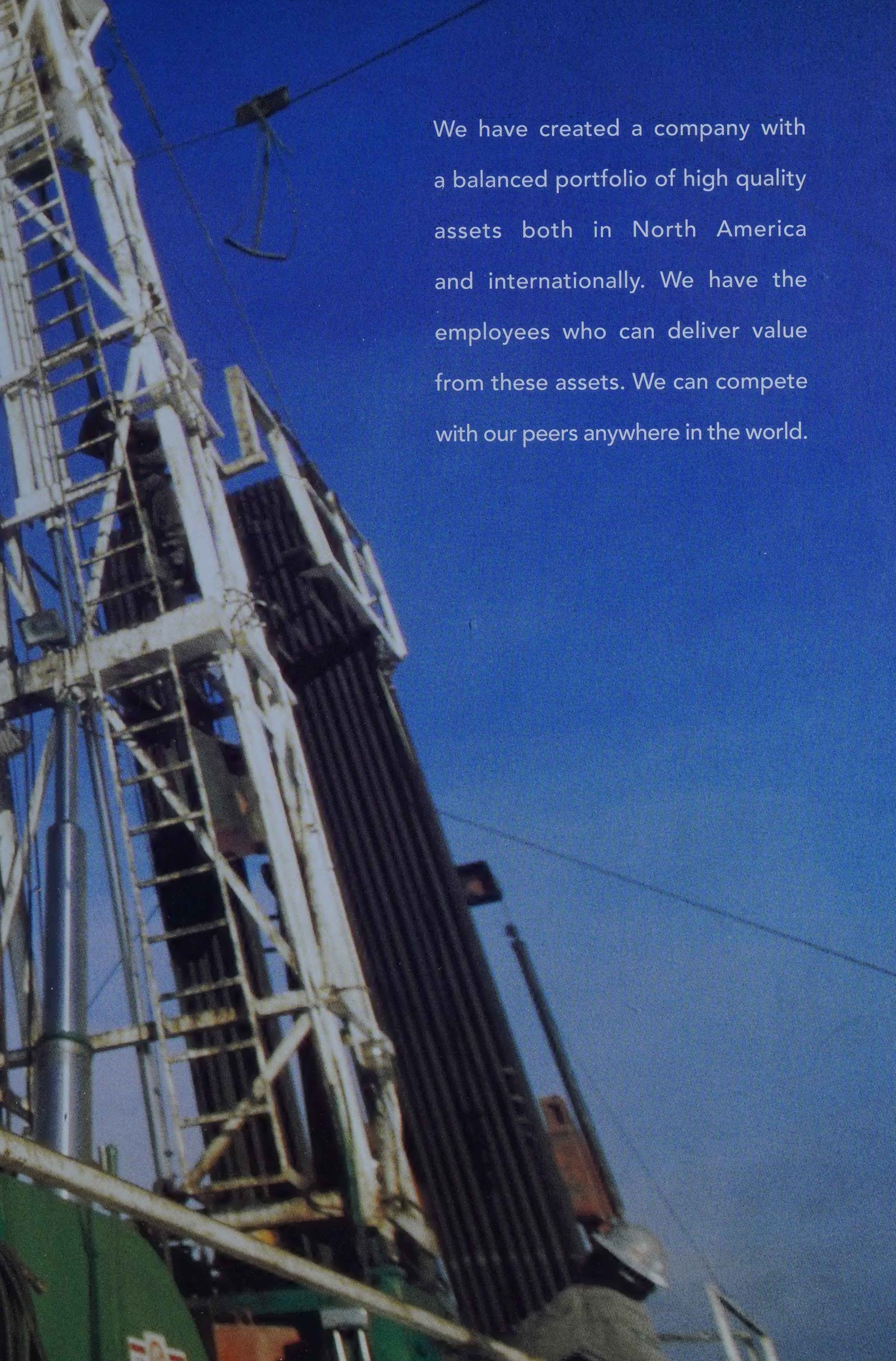
Netherlands increase in proved reserves

24%

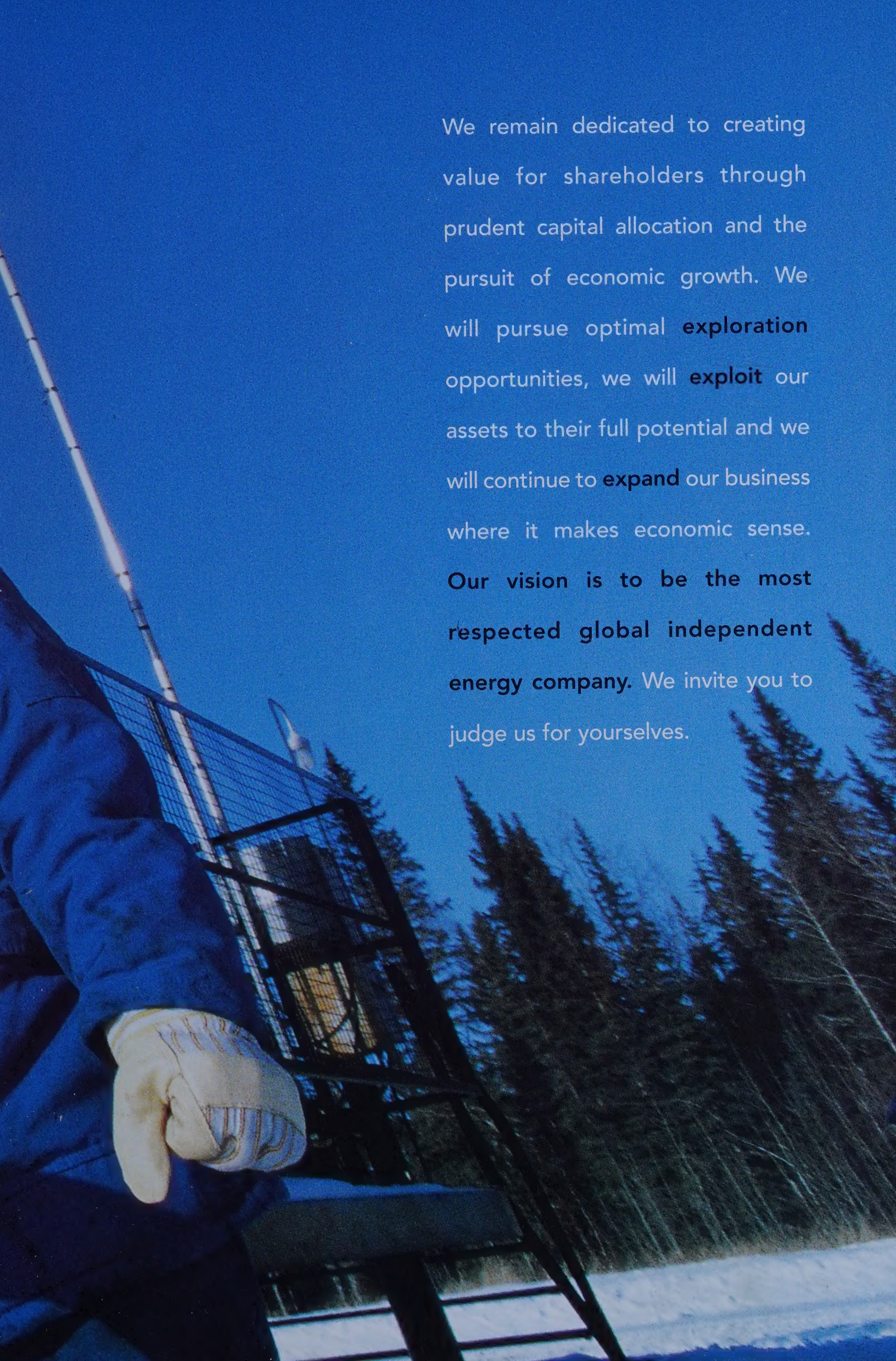
- Gulf replaced proved reserves by more than 370 per cent of production, giving a year-end figure of 1,142 mmboe (gross, with Cdn gas at 10:1).
- Syncrude, in which Gulf has a 9.03 per cent share, completed its Stage Two expansion project, increasing Gulf's production capacity by 25 per cent in 2001 to 22,500 b/d.
- Gulf and ExxonMobil selected the location for the first well to be drilled on joint lands offshore Eastern Canada. Drilling is expected to begin during March 2001.
- The Mackenzie Delta Producer Group (of which Gulf is a member) that is considering the development of Northern Canada's gas resources has stepped beyond its initial feasibility study and is beginning work on a development application.
- In Indonesia, delineation drilling on the Suban discovery confirmed the existence of a major gas field. Production during the year averaged 46,600 boe/d and the West Natuna Transportation System was completed four months ahead of schedule. One new long-term gas sales contract was signed and another virtually completed (with signature in February 2001). Gulf Indonesia's gross proved reserves increased during the year by 27 per cent to a total of 311 mmboe (gas at 6:1).
- In The Netherlands, four Gulf-operated exploration wells were drilled, resulting in three gas discoveries adding 8.2 million boes of proved reserves during the year. The first of six offshore gas developments, the Q4-A field, came on stream in record time, using a refurbished North Sea platform.
- With the purchase of Crestar Energy, Ecuador became an additional core area for Gulf. The Company now owns a 14 per cent interest in Block 16, operated by Repsol-YPF. Gulf's production currently averages 5,600 b/d. This property has the potential to almost triple production with the completion of a new pipeline, planned for early 2003.
- In North Africa, Gulf increased its exploration exposure in the Ghadames Basin from Algeria to Tunisia. Three exploration wells are planned for 2001 in this very attractive exploration basin.


we have.
KEVIN
Gulf

We have created a company with a balanced portfolio of high quality assets both in North America and internationally. We have the employees who can deliver value from these assets. We can compete with our peers anywhere in the world.




we will.
Gulf



We remain dedicated to creating value for shareholders through prudent capital allocation and the pursuit of economic growth. We will pursue optimal **exploration** opportunities, we will **exploit** our assets to their full potential and we will continue to **expand** our business where it makes economic sense. **Our vision is to be the most respected global independent energy company.** We invite you to judge us for yourselves.

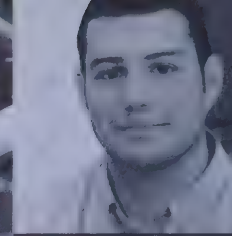
we are.

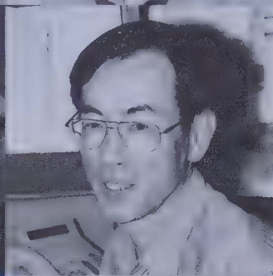
meet our management team

GULF CANADA RESOURCES LIMITED 2000 ANNUAL REPORT



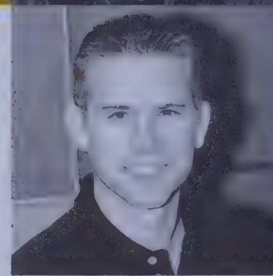
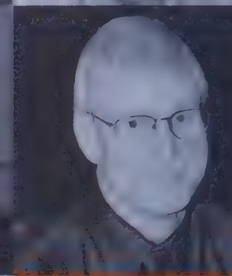


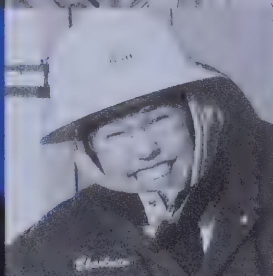




Marcel R. Coutu
Senior Vice President and
Chief Financial Officer

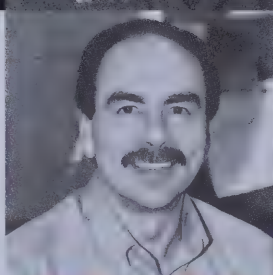
"Gulf's new balance sheet is dramatically improving its financial flexibility and cost of capital through better credit spreads and equity values."



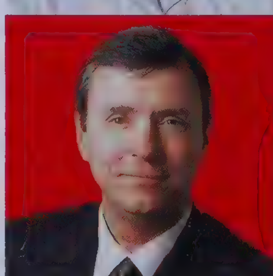
Richard H. Auchinleck
President and
Chief Executive Officer

"In 2000, we excelled in all measures of performance. With our new momentum, we will expect the same of ourselves in 2001."



Barb Williams
Vice President
Administration

"We are excited by the challenge of integrating two very dynamic companies. Our combined support services and systems will be even better than before as we work together."




Thomas G. Hinton
Vice President
and Treasurer

"Financially, Gulf had a truly great year. After many years of effort, we regained investment grade from all the rating agencies."

Henry W. Sykes
Executive Vice President
Business Development

"We will create long-term value by successfully timing exploration, development, acquisition and divestment through the ups and downs of the energy price cycles."





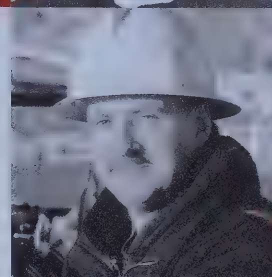
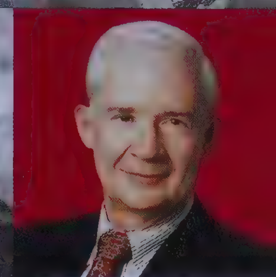







Lynne Walker
Senior Vice President
Corporate

"We have created a work environment in which people have the freedom to excel and where our employees have voted Gulf as one of Canada's "Best Companies to Work For"."

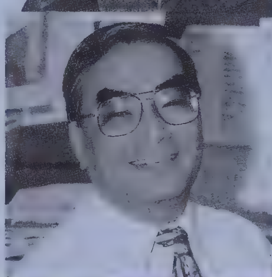



Doug Gardner
Vice President
Exploration

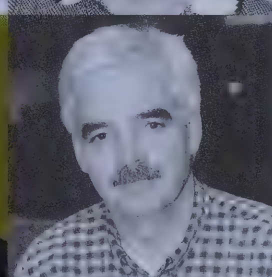
"Exploration will provide an exciting opportunity portfolio, designed to grow our business and create value for our shareholders."


Ron McIntosh
Senior Vice President and
Chief Operating Officer

"We will broaden the scope of our exploration and development work, including a significant increase in exploration activity."

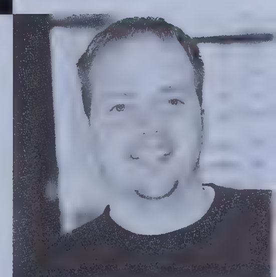




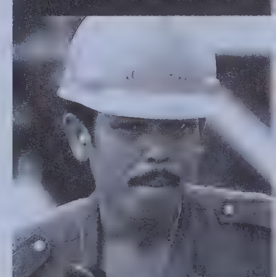
Dan Bailie
Vice President
Domestic Operations

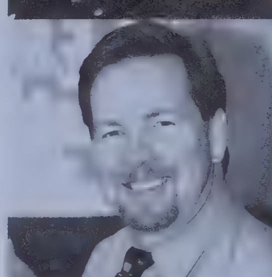
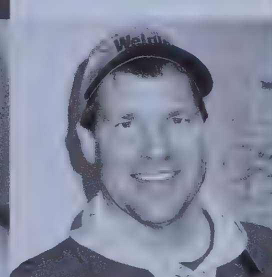
"With the combined Gulf and Crestar assets, we have a large portfolio of Western Canadian exploitation opportunities, well balanced between oil and gas."




Murray Hesje
Vice President
and Controller

"The Company's performance in 2000 sets the stage for growth. We commit to continuing our focus on costs in order to maximize the value from each of our properties."


we said.

Richard H. Auchinleck
President and
Chief Executive Officer

It is said that a rising tide lifts all boats, and this has certainly been a good year for the oil and gas industry. Even within that context, however, Gulf's performance in 2000 was truly exceptional. The year marked the completion of our turnaround and the creation of a new Company, positioned for profitable and disciplined growth.

Before looking forward, let me focus on the recent past for a moment. Gulf is an organization that believes in making commitments and delivering on those commitments. An important part of that process is looking back and honestly appraising our performance. Since I've become the CEO of Gulf, I have made commitments to shareholders each year. At the end of that year, I've reported on how we did. Let me review the results specifically:

The Gulf Report Card

In last year's annual report, we committed to:

Position the Company to grow and expand in core and new areas.

WE DID The acquisition of Crestar Energy and the successful completion of our debt reduction program have resulted in upgrades to our credit ratings, which in turn have reduced our financing costs, providing more capital for the creation of shareholder value. Our new, more balanced asset mix has also created substantial additional cash for reinvestment elsewhere in the business, as well as introducing a range of new investment opportunities. We are well positioned to grow and expand.

Return to profitability in 2000.

WE DID Earnings were $148 million, after $31 million of charges for one-time items, including the $38 million after tax charge, primarily reflecting recognition of the deferred foreign exchange loss associated with the early repayment of US$300 million debt. This debt repayment will reduce our cash interest costs by approximately $9 million per year going forward.

Generate a minimum $510 million in cash at budgeted oil prices of US$18.00/bbl.

WE DID On a stand-alone basis, Gulf would have generated $477 million of cash flow had crude oil averaged US$18. The target would have been exceeded, had it not been for shortfalls at Syncrude. As it was, crude oil averaged US$32.20 and cash flow (including Crestar, post-closing) amounted to $1,095 million.

Continue our debt reduction program with a target of $1.5 billion net debt at year-end.

WE DID On a stand-alone basis, Gulf's debt reduction program would have exceeded the target. This target of $1.5 billion was a proxy for a net debt to capital ratio of 40 to 45 per cent, consistent with industry peers. Gulf's year-end ratio was 41 per cent. This significant balance sheet improvement earned Gulf new investment grade debt ratings during 2000 from Standard & Poors and Moody's.

Replace 100 per cent of reserves produced while increasing production from retained assets.

WE DID We replaced almost 400 per cent of our 2000 production on a Gulf stand-alone basis. On a combined basis, we replaced 370 per cent of the Gulf/Crestar 2000 production. Production running rates from retained assets were essentially flat during the year. They would have risen by three per cent but for the decision to temporarily shut in gas production at Westerose North to maximize long-term hydrocarbon recovery from the area.

Complete the development of West Natuna and the first stage of the Q4 gas projects.

WE DID The West Natuna Transportation System was completed four months ahead of schedule. The Q4 field in the Netherlands came on stream in December 2000, on schedule and on budget. We believe that the short 18-month time period from discovery to initial production from a new platform is a record for the Netherlands North Sea.

Finalize additional Indonesian gas contracts.

WE DID A new 19-year agreement was signed with Caltex in late 2000 and, early in 2001, an agreement was signed with Singapore Power. Together with two earlier contracts, these gas sales agreements represent an estimated gross revenue to Gulf of over US$7 billion at current prices during the term of the contracts.

Initiate development of a Mackenzie Delta gas feasibility study.

WE DID In February 2000, Gulf and other companies formed a Producer Group to study the feasibility of a joint Mackenzie Delta gas development project. By year-end, the Group announced that it was stepping beyond the feasibility study to commission further conceptual engineering work and start the collection of baseline biophysical data. The Group will start preparing for a regulatory application in 2001.

Continue work to position Surmont for commercial production by January 2004.

WE DID In order to ensure the conservation of the estimated 15 billion barrels of bitumen in the Surmont area, the Alberta Energy Utilities Board issued a Conservation Order in March 2000 to shut in 146 gas wells on the Surmont leases. At the site, a third full-length commercial well pair was drilled and commenced bitumen production. A decision regarding commercial development is expected in August 2002.

As you can see, we have delivered on the commitments we made.

The Acquisition of Crestar Energy

The acquisition of Crestar Energy was one of those very rare transactions that provided immediate financial benefits while creating a stronger, more balanced asset portfolio. As a result of that acquisition, we created near-term benefits, such as accretion to our cash flow and earnings per share, which will create longer-term benefits by providing the cash to help fund the development of our long-term growth assets.

This marked the completion of our balance sheet restructuring, ending a program of debt reduction that we began in 1998 and beginning an era of disciplined, profitable growth.

The acquisition was much more than a financially driven transaction. Crestar also brought to Gulf a significant portfolio of natural gas assets, providing a more balanced exposure to oil and North American gas prices. The acquisition doubled our go-forward North American gas production. It also doubled our undeveloped land base in Western Canada. In Ecuador, it brought a new international core area where, with development of a new pipeline, we have sufficient existing reserves available to almost triple production over the next three years.

Crestar was a very well run company and the transaction brought many talented people into Gulf. Their expertise will make an important contribution.

Gulf People

In at least one respect, the energy industry is similar to others. It's the people that make the difference.

The accomplishments of the last three years would not have been possible without the tremendous efforts of Gulf's people. Shareholders, as well as management, are fortunate in having many special people who make Gulf a very stimulating place in which to work, as well as being a highly effective organization. In early 2001, Gulf was recognized by the Globe & Mail as one of Canada's "35 Best Companies to Work For." Gulf was sixth in the country and the top in the oil and gas industry. This is a significant achievement and speaks well for our ability to attract and retain key personnel.

We continue to attract top quality individuals to our team. In the last few months, we have welcomed our new chief operating officer, Ron McIntosh, who has over 35 years' experience in this industry, and Doug Gardner, in the newly created post of vice president, exploration. In addition, Dan Bailie and Barb Williams joined our officer team from Crestar, Dan as vice president, domestic operations and Barb as vice president, administration. The fact that we can attract individuals of this calibre and experience bodes well for the future of Gulf and our ability to realize our full potential.

We have had some departures as well. Two, in particular, stand out. We said farewell to Doug Manner, our chief operating officer and to Dennis Feuchuk, our controller. They both made enormous contributions to our success and I want to thank them for their commitment and dedication to Gulf and what we stand for. Our new controller is Murray Hesje, who has returned to Calgary after a posting with Gulf Indonesia.

The Crestar acquisition also brought some Board changes. Barry Jackson, past president and CEO of Crestar and two of his Crestar Board colleagues, Harry Schaefer and Arthur Willms have joined the Board. I welcome them to Gulf.

Hal Neldner, Ron Robertson and Gary Countryman stepped down as directors of Gulf in late 2000. The contributions that directors make to a business are often overlooked by the markets and the media. As a CEO, I have been very fortunate to have a board that is supportive, as well as challenging. I sincerely thank Hal, Ron and Gary for their contribution to Gulf's success during their term as directors.

Our Strategy for 2001 and Beyond

Gulf's strategy is driven by its assets and our vision of what this Company will be in the future. We have an exceptional portfolio of assets that will provide us with definable growth for the balance of this decade. What I mean by "definable growth" is that the assets that will provide growth in the future exist in our portfolio today. What really makes these assets unique is that they provide low risk growth, with known reserves for development. While we will continue to explore and acquire, we do not need to rely on acquisitions or exploration for our growth. Our definable growth will come from assets such as Syncrude, our Netherlands gas discoveries, Ecuador, Surmont, Mackenzie Delta gas and our large gas reserves in Indonesia. Few, if any, independent energy companies have similar quality assets for growth.

Based on this, our strategy has three broad thrusts:

- Firstly, we will continue to work to bring these definable growth assets on stream as quickly as possible.
- Secondly, we will diligently and thoroughly exploit and develop our near-term assets to maximize their cash flow. We are fortunate that these assets will supply us with cash flow in excess of that required to maintain existing production.
- Thirdly, we will reinvest some of the excess cash flow provided by our near-term assets in high potential exploration activities and the development of our definable growth assets. We will also pursue acquisitions, whether corporate or asset based. We believe these can, with the appropriate discipline, provide a viable avenue for profitable growth and the creation of shareholder value.

Our Commitments for 2001

Looking forward to 2001, we believe that the following commitments will have a material impact on our business and on value for shareholders.

- We will advance our major projects, including northern gas development, East Coast exploration, our Surmont heavy oil project, further development of our Netherlands discoveries and the development of additional Indonesian gas reserves to support new gas contracts.
- We will identify at least one additional contract opportunity for Indonesian gas sales.
- We will develop a full cycle North American exploration program.
- We will increase both our production and proved reserves on a per share basis.
- We will have reserve replacement in excess of 100 per cent of production.
- We will reduce our costs per barrel of production, despite the current environment of increasing external costs.
- We will further optimize our debt portfolio and improve our credit profile.

Three years ago, when I became CEO of Gulf, we set out on a path to return this Company to the position of respect it once enjoyed from its peers and investors. We laid out a plan and we followed it. We could have resolved our debt problems more quickly by selling some of our premier assets, but we chose not to take the easy way out. We insisted that once our plan was executed, we would have an asset base and development opportunities that would be the envy of independent energy companies everywhere. I believe we have met that challenge.

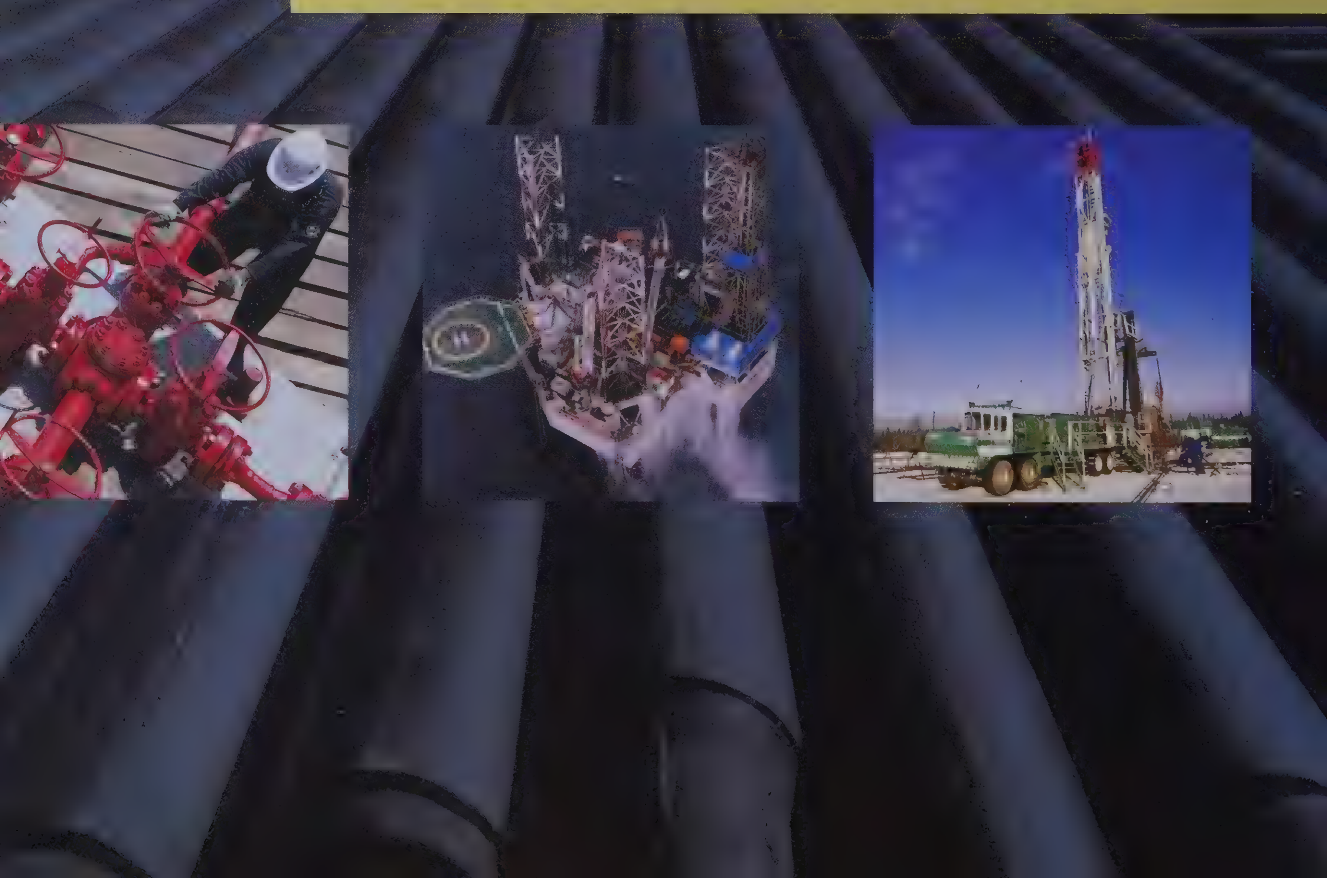
Going forward, we will be equally dedicated to the creation of value for shareholders through prudent capital allocation and the single-minded pursuit of economic growth. We will pursue the best exploration opportunities wherever they may be in our portfolio, we will exploit our assets to their full potential and we will continue to expand our business through corporate or asset acquisitions, wherever it makes economic sense. Our vision is to be the most respected global independent energy company. I invite you to judge us for yourselves.

Richard H. Auchinleck
President and Chief Executive Officer

April 3, 2001
Calgary, Alberta

"Gulf's turnaround would not have been possible without the outstanding contribution of Gulf's people and the creation of a work environment in which our employees have the freedom to excel and where their voices are truly heard. In the past year, the depth of their commitment was perhaps best recognized by the acknowledgement of our employees that Gulf is one of Canada's best companies to work for. At Gulf, our future success will be a direct result of our ability to retain, engage and attract the best talent in the industry. As Gulf moves into an era of value driven growth, we will continue to invest in the strength and resourcefulness of our people."

Lynne Walker
Senior Vice President, Corporate



we did.

2000 was an exceptional year for Gulf. The year marked the completion of the turnaround, the creation of a new, stronger Company, positioned for profitable and disciplined growth, the fulfillment of commitments to shareholders and successes in the exploration, exploitation and expansion aspects of the business.

The following pages of this Operations Review report on some of the most noteworthy achievements of 2000 and also share our strategic philosophy in the areas of exploration, exploitation and expansion.

explore

for oil and gas in areas with the greatest opportunity for profitable growth.

exploit

assets to their full potential, with a rigorous focus on minimizing costs and optimizing recoveries, efficiencies and returns.

expand

interests in core areas and consider adding new core areas elsewhere, where Gulf's expertise can provide a competitive advantage and a profitable rate of return.

"Western Canada will remain a core focus of our organization, but as we increase our portfolio of exploration opportunities, we will broaden the scope of our activities. We will strive to further expand our operations in the North Sea, including a significant increase in exploration activity. In Indonesia, we will continue to aggressively explore for large-scale oil opportunities, as well as the significant gas reserves required to support additional long-term gas sales contracts. In South America, the Company's new position in Ecuador provides a core area with springboard opportunities for growth. Increased activity in these areas will complement the longer-term exploration opportunities presented by Canada's East Coast, the Mackenzie Delta and future large-scale oil sands developments."

Ron McIntosh
Senior Vice President
and Chief Operating Officer

explore

A focused and disciplined exploration program is a critical component of our growth strategy in our existing theatres of operation and in new areas of our business. Our exploration will focus primarily where our core assets will enable us to manage risk and where we can build on our areas of proven expertise, both in the knowledge and skill of our people and in our uses of technology. A selective element of our exploration portfolio will target "big hit" opportunities with the potential to add significant reserves and identify new future core areas. Gulf is well positioned to grow its exploration focus in Western Canada, building on the asset base established with the acquisition of Crestar. North American frontier opportunities such as the Canadian East Coast and Mackenzie Delta combine with our exciting global opportunities in Indonesia, The Netherlands, North Africa and Ecuador to create a balanced portfolio of opportunities with excellent upside potential.

Key exploratory successes in 2000 include:

Western Canada

- Two new pool gas discoveries at Steen in northern Alberta
- Two new oil discoveries at Ante Creek in central Alberta
- A gas discovery in the Musreau area
- The tie-in of a late 1999 gas discovery at Sikanni in the B.C. Foothills

East Coast

- Agreements clear the way for East Coast well in early 2001

Indonesia

- Oil discovery at Ande Ande Lumut in the Northwest Natuna Block 1 PSC

Netherlands

- The success rate of exploration during the last three years now exceeds 60 per cent
- Three gas discoveries, which will begin production in 2001

Canada

Western Canada

At Steen, in northern Alberta, Gulf built on the successful 1999 program by drilling a ten well program in early 2000, which led to two new gas discoveries. The Steen area is centered around an ancient astrobleme, or meteor impact crater. Structures around the rim of the 15-mile wide crater have been shown to produce gas at high rates and the 14-32 and 1-15 discoveries identified new gas pools on previously undrilled structures on the north and south rims of the crater. Continuing to build on the drilling success in the area, Gulf purchased 33,000 gross acres of Crown lands in 2000 and started a 12 well exploration program and further seismic work at the end of the year.

In the Ante Creek area of west central Alberta, exploration activity identified two new Triassic oil pools. An additional five wells are planned for 2001 to delineate these discoveries and to test additional leads in this core area.

In northeast British Columbia, the successful Sikanni b-33B well came on production, adding almost 10 mmcf/d net through Gulf's 33 per cent interest. Two exploration wells will be drilled over the winter to follow up on this exciting discovery. If successful, these wells have the potential to add another 15 mmcf/d to Gulf's Western Canada gas production.

In the Musreau area of west central Alberta, the Chicken 3-21 gas discovery, in which Gulf has a 60 per cent working interest, was tied in and came on production at 9 mmcf/d.

East Coast

In 1999, Gulf signed a joint venture and operating agreement with Mobil Canada, covering a total of 8.6 million acres in Canadian and French territorial waters off the East Coast of Canada, between Hibernia and Sable Island. The first well to be drilled under this agreement will spud in March, 2001. This well, which will be operated by ExxonMobil, and in which Gulf will retain a net interest of 35 per cent, will evaluate a new, undrilled prospective area off the East Coast. It will evaluate geological formations of the same age as those that hold significant oil and gas discoveries on the Grand Banks and the Scotian Shelf.

If the high risk exploration in this area is successful, the development holds the potential for a major step change in Gulf's asset value. The well is expected to reach a total depth of between 3,800 and 4,250 metres and will take 70 to 90 days to drill and evaluate. ExxonMobil and others are fully funding the cost of this first well. Gulf and ExxonMobil each have reciprocal rights to earn additional interests in the blocks by funding an additional share of seismic and wells.

This program began in 2000 with the drilling of the partner-operated Ande Ande Lemut well in the Natuna Sea. The well, the first drilled in the North west Natuna Block 1, logged oil pay and recovered oil samples from four sands in one of the main producing formations in the basin. This extends the limits of oil prospectivity in the West Natuna basin and confirms the block's potential. Delineation drilling is planned for 2001. Two additional wells were drilled in 2000, at Sawangan on the Sakala Timur block and at Bukit Panjang on the Ketapang block. Neither well showed commercial potential.

The last part of the exploration strategy is onshore gas exploration. Gulf currently has a large number of prospects in South Sumatra, but exploitation of the large Suban field, where the Company is continuing its delineation program, is its first priority for adding to its gas reserves in the area.

This exploration program is designed to balance the higher risk, but high return, onshore oil exploration with lower risk, but lower return, onshore oil exploration. Gulf will continue to explore for gas to the extent it perceives that additional reserves are required to meet market opportunities.

Indonesia

Gulf's exploration strategy in Indonesia is three-pronged. Firstly, Gulf has an onshore oil exploration program that targets prospects in the five to ten million barrel range, all of which can be relatively quickly connected to existing infrastructure. A total of five prospects are scheduled to be drilled in 2001. The Company is also currently delineating the oil accumulations in the shallow sands above the Suban gas field.

The second prong of this strategy is the offshore "big hit" exploration program. The Company is currently in the middle of a seven well drilling program, exposing the Company in the process to targets in excess of 100 million barrels each. Three of the wells were drilled in 2000 and four are included in the drilling program for the first half of 2001.

Netherlands

Since entering the Southern Dutch North Sea gas basin in 1997, Gulf has focused on growth, pursuing a concentrated exploration strategy. This continued throughout 2000, when the Company drilled more offshore operated exploration wells than any other company in the Netherlands sector and applied for more offshore exploration acreage than the rest of the industry combined. Gulf acquired 240,000 acres (net) in 2000, with applications pending for an additional 298,500 acres (net).

The four Gulf-operated exploration wells drilled resulted in three gas discoveries. All of these were made in core areas, where reserves can be quickly developed and tied in, using existing Gulf infrastructure. Two of these discoveries, P6-9 and MDZ-1 are scheduled to begin production during 2001, with P9-9 currently being evaluated for development in 2003.

P6-A Platform
North Sea, Netherlands


Grissik, Indonesia

The P6-9 discovery well flowed at 54 mmcf/d (Gulf share, 29.4 per cent), while the P9-9 well flowed at 11 mmcf/d, (Gulf share, 44.9 per cent). It was not necessary to test MDZ-1 to confirm commerciality, as the well had encountered over 30 metres of high quality net gas pay with the same or better characteristics as a productive horizon in a nearby well.

The commercial success rate of the Netherlands exploration program now exceeds 60 per cent. The last three years of sustained success have laid the foundation to double gas production in the next two years. A total of 8.8 million boes were added to proved reserves during the year.

The additional acreage acquisitions and outstanding exploration inventory will support a comparable ongoing exploration effort – with similar expectations of success – for at least the next four years. The combined success to date and exploration prospect inventory should enable Gulf to triple its total production and double the reserve base of its Netherlands assets during the next five years.

Coincident with Gulf's current 2001 plans of four exploration wells and future exploration plans, the Netherlands government also announced a significant policy change this year that will further enhance the economics of Gulf's exploration plans. The government policy change will improve the economics of exploration in the areas of bonus fees, royalties, state profit share and participation in exploration.

North Africa

During 2000, Gulf increased its exploration exposure in the Ghadames Basin from Algeria to Tunisia. This is a very attractive exploration basin, where wells drilled in the last three years have had commercial success rates of over 60 per cent and where the average field size is in excess of 200 million barrels of oil equivalent.

This increased exposure was achieved through the acquisition of a 40 per cent interest in the partner-operated Borj el Khadra license in Tunisia. Gulf now has equity in three contract areas: El Ouar I and II in Algeria, where one discovery has already been made, and Borj el Khadra in Tunisia. As a result, Gulf's net acreage has more than doubled from 323,000 acres to over 750,000 acres.

Further work has been done on seismic data for these three areas, establishing a significant prospect inventory. Three exploration wells are planned for 2001 and there are enough prospects for continued exploration over the next several years.

"Gulf began 2000 with a financial objective of reducing its corporate net debt to $1.5 billion and improving its balance sheet to a net debt to capitalization ratio of less than 46 per cent. By year-end, operations, asset transactions, the Crestar acquisition and commodity prices had all contributed to debt reduction beyond this target, down to a net debt to capitalization ratio of 41 per cent. Gulf exited 2000 with its debt newly branded as investment grade. On the strength of this achievement, Gulf has already embarked upon a growth strategy that we will pursue aggressively while improving credit strength."

Marcel R. Coutu
Senior Vice President
and Chief Financial Officer

exploit

Gulf has a unique portfolio of long-term growth assets that have the potential to provide definable increases in production, independent of exploratory success, as well as a large inventory of exploitation opportunities throughout its conventional oil and gas asset base. Gulf's strategy is to continually high grade this extensive inventory, focusing on economic returns on capital employed. Gulf's multi-disciplinary teams manage and grow the value of core properties by economically increasing production, lowering per unit operating costs and adding incremental reserves. With a well-balanced portfolio of near- and long-term oil and gas exploitation opportunities, Gulf believes it can add significant shareholder value through the effective and efficient development and growth of its asset base.

Key areas of progress in 2000 include:

Western Canada:

- Additional horizontal miscible injection patterns were completed in EOR fields
- Steen River gas well drilling and plant debottlenecking was completed
- Secondary waterflood recovery was initiated at Red Earth
- Surmont pilot SAGD commercial length well pair was drilled and brought into production

Northern Canada:

- Mackenzie Delta Producer Group steps beyond its initial feasibility study to begin work on a development application in 2001

Netherlands:

- The offshore Q4-A field came on stream in record time: on schedule and on budget

Indonesia:

- The Suban 4 gas delineation well resulted in a greatly increased view of the field's size, with the Gulf share of booked reserves rising from approximately 600 bcf to over 1.6 tcf

Canada

Enhanced Oil Recovery Properties

Gulf's Enhanced Oil Recovery (EOR) properties – Goose River, Swan Hills and South Swan Hills, all located in west central Alberta – originally contained an estimated 800 million barrels of oil in place (net to Gulf). These assets provide the potential for substantial growth from a stable platform through the application of new technology to increase recoverable oil reserves.

In 1999, Gulf was the first oil company in Canada to build a three-dimensional visualization room, which enables a multi-disciplinary team to work together in a unique three-dimensional environment. This technology has had particular application to EOR properties, by integrating data from several disciplines, allowing the teams to optimize the placement of horizontal miscible injection wells and vertical infill producing wells.

This horizontal miscible injection well technology continues to assist production growth in the EOR area. During 2000, Gulf completed four horizontal miscible injection wells and five miscible pattern infill wells in the EOR fields of Goose River and South Swan Hills. This program added approximately 1,000 boe/d of incremental production net to Gulf before the end of 2000 and is expected to peak at over double that rate in 2001.

CO_2 miscible flooding is another technology that is being evaluated for these pools. Gulf is participating with other operators in this area to evaluate this technology. It has the potential to significantly improve the economics of oil recovery from these pools as well as eliminate a relatively large source of greenhouse gas emissions.

Red Earth

Gulf estimates that the Red Earth area of northwestern Alberta also had approximately 800 million barrels of original oil in place. Production optimization and the use of secondary recovery techniques have the potential to more than double the ultimate recovery of the oil from ten per cent to 25 per cent.

During the winter of 1999/2000, Gulf carried out a 30 well drilling program, consisting of three exploration and 27 development wells. Nineteen of these wells are now on stream, adding 2,700 b/d of initial production. New drilling and completion techniques have doubled initial flow rates, compared to earlier wells. A water flood expansion project was also undertaken with positive impacts on our finding and development costs.

Following this success, Gulf acquired 90 square kilometres of 3D and 120 kilometres of 2D seismic to identify additional drilling sites. A 30 well drilling program, several waterflood projects and an additional seismic program are currently in progress to further exploit this highly prospective area.

Steen

Gulf's operations at the Steen River gas plant in northwestern Alberta have continued to grow.

Three new gas wells were tied in to the plant in the first quarter of 2000. This, together with the addition of compression in the middle of the year, resulted in average production for 2000 of 32 mmcf/d, a 50 per cent increase compared to the previous year.

A 12 well exploration program, starting at the beginning of 2001, could further increase production. If they are successful, four of the wells could be tied in during the first quarter.

At the plant, a debottlenecking program has increased processing capacity to approximately 40 mmcf/d, to accommodate the future increases in throughput.

Ghost Pine/Connorsville

In this core gas producing area of southeastern Alberta, 3D seismic was acquired, which enabled Gulf and partners to drill 12 new discovery and development wells in Cretaceous sand reservoirs. Production was further increased through optimization of the gathering


Steen, Alberta


Red Earth, Alberta

systems. Continuing acquisitions of minor interests in the Ghost Pine Unit also enabled Gulf to increase its production and control in this core property.

Petrovera

Petrovera, a partnership in which Gulf owns approximately 47 per cent, combines a substantial portion of the conventional heavy oil assets and certain associated gas assets of Gulf and its partner to reap the benefits of combined expertise, technology and economies of scale.

The partnership had a good year, generating cash flow of $232 million, which was well beyond expectations. Gas production grew by 29 per cent and oil production by ten per cent, despite reinvesting only 50 per cent of cash flow. Operating and general and administrative costs remained flat, despite cost pressures in the industry and increased servicing work to increase production volumes. The partnership ended the year with gross production of 40,000 boe/d.

In the longer term, Petrovera's conventional heavy oil does not fit Gulf's strategy and the Company will continue to evaluate options and opportunities for its partnership interest.

Surmont

The Surmont oil sands leases are located south of Fort McMurray and contain an estimated 15 billion barrels of bitumen in place. Surmont's oil sands are too deep to be mined like those at Syncrude, so Gulf is further developing Steam Assisted Gravity Drainage (SAGD) technology to recover the bitumen. SAGD technology could recover up to five billion barrels of bitumen.

The challenge at Surmont is not only to apply SAGD technology to recover the bitumen, but also to recover it at low pressure due to the pressure "thief" zones that overlie the bitumen zones. These are zones that provide an unwanted escape route for the steam, which is injected into the reservoir to enable the bitumen to flow. To reduce the risk to the recovery of the bitumen, Gulf applied to the Alberta Energy Utilities Board (AEUB) in 1996 to stop gas production and thus conserve formation pressures at the Surmont leases.

After an inquiry in 1997 and the lengthiest ever AEUB hearing in 1999, the AEUB issued an order on March 30, 2000 to shut in 146 wells producing overlying gas at Surmont and within a three-mile buffer zone to conserve these vast bitumen resources.

The Surmont pilot originally consisted of two short well pairs, which averaged 580 b/d during the year. In 2000, a third pair was drilled, completed and commenced production. This 700-metre long well pair is the same length as the planned length of future commercial wells.

In 1999-2000, 35 core holes for resource delineation were drilled to identify the best areas for development, with a lower risk of encountering overlying water or gas "thief" zones.

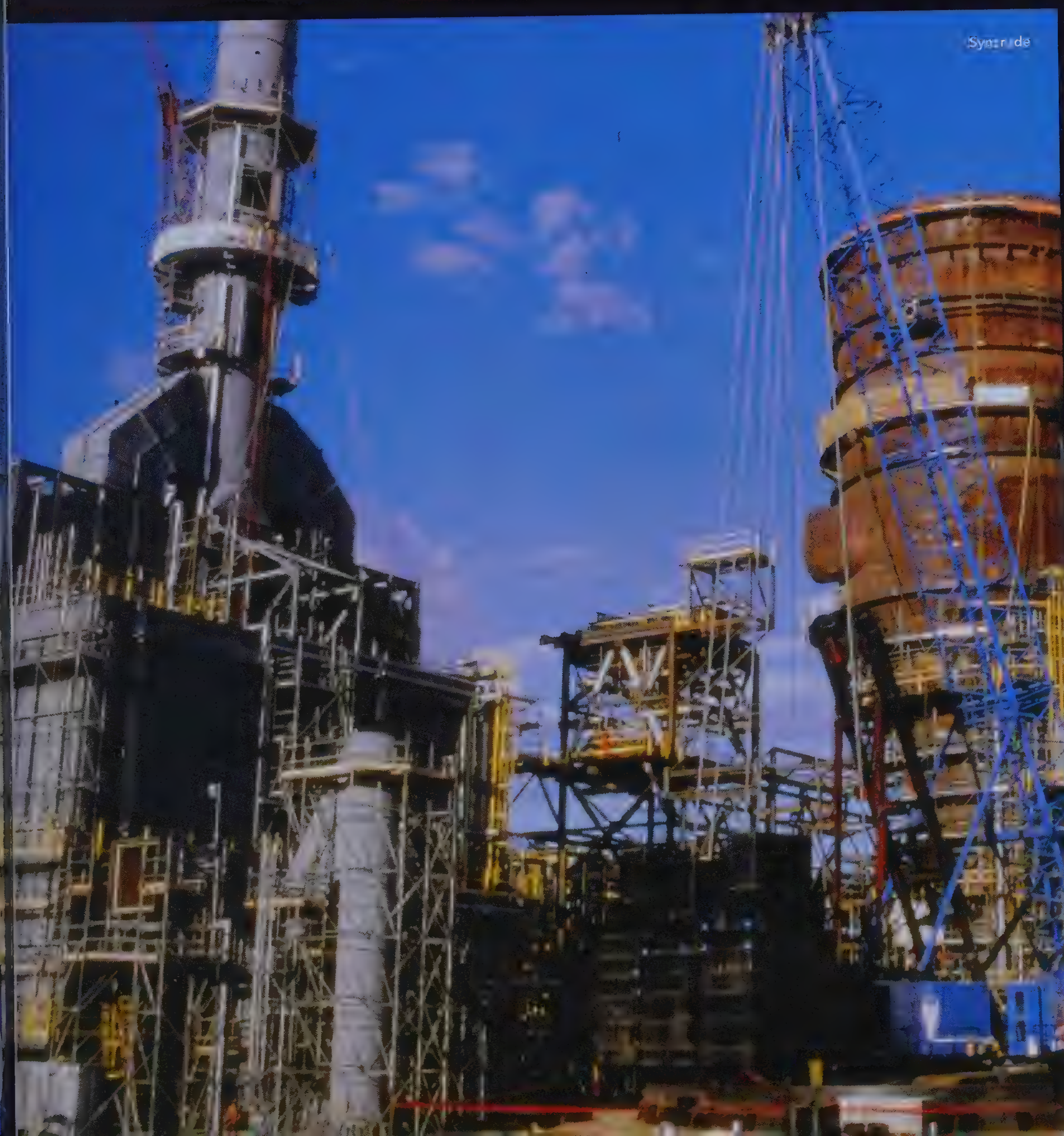
During the year, Gulf completed a screening study on upgrading technologies that will advance to conceptual engineering on the processes in 2001. Gulf is also working with several companies to advance a number of upgrading technologies that, if proven successful, could add significant value to the project.

A decision on commercial development is expected to be made in 2002. Assuming a positive decision, Gulf expects the first 10,900 b/d phase (Gulf share) to come on stream in 2004, and eventually plans to quadruple production to a level that should be sustainable for over 100 years.

Syncrude

2000 was a difficult year for Syncrude. Average sales of 18,800 b/d (Gulf 9.03 per cent share) were below target because of maintenance shutdowns, equipment failures and a new Vacuum Distillation Unit that had not yet achieved design performance. Operating costs were also above expectation because of the production


Surmont, Alberta


Syncrude

shortfall, higher maintenance costs and increases in the cost of natural gas used in processing. Gulf believes that the additional maintenance undertaken in 2000 places Syncrude on a sound footing to establish a new production record in 2001.

The $120 million composite tailings project (Gulf share, $11 million), is now in operation. This project provides a significant improvement in tailings management and land reclamation and addresses a significant environmental concern.

Northern Canada's Gas Reserves

In the early 1970s, Gulf discovered a large natural gas reservoir at Parson's Lake, in the Mackenzie Delta, near Inuvik in the Northwest Territories. Based on the results of a 17 well delineation program at the time, Gulf identified 1.3 tcf of probable gas reserves in the field, which removes exploration risk from Gulf's development plans.

In addition to the Parson's lake property, Gulf holds a 25 per cent interest in two onshore exploration licenses, covering 530,000 acres. The interest in these lands was acquired in 1997, well before the recent increase in industry activity in this area.

Following a seismic program during the winter of 2000-2001, Gulf plans to drill in the area during the following winter.

In February 2000, a Producer Group, consisting of Gulf, Imperial Oil Resources, Shell Canada Limited and ExxonMobil was formed to study the feasibility of a joint Mackenzie Delta gas development project. The Group made good progress on the feasibility study work during the year and was very encouraged by the strong support received from northern communities and governments.

As a result, in December 2000, the Producer Group announced that it would initiate further engineering and biophysical data gathering work in order to help position it to begin work on a development application in 2001.

Offshore, Gulf is the designated operator for a number of properties and holds interests in a significant portfolio. The most prominent offshore property where Gulf would be the operator is the Amauligak oil field, which is located about 70 kilometres northwest of Tuktoyaktuk, in 32 metres of water. Gulf holds a 50 per cent interest in this property, where there are probable reserves of about 300 mmbbls of oil and 2.3 tcf of gas.

Gulf's share of other interests in the Beaufort Sea/Mackenzie Delta area contain possible reserves of about 100 mmbbls of oil. None of Gulf's reserves in this area have yet been booked as proved.

Netherlands

The Gulf-operated offshore Q4-A field came on stream in late December 2000, on schedule and on budget. Gulf believes this is the first time in the 30-year history of Dutch exploration and production that a field has been brought on stream using a completely refurbished North Sea platform. This enabled production to begin only 18 months after discovery, which is thought to be a record for the Dutch North Sea. The Q4-A field began production at 49 mmcf/d but recently increased to a contract-maximum rate of 67 mmcf/d (20 mmcf/d net to Gulf's 29.85 per cent interest). Two additional developments, P6-D and MZ-1, are scheduled to begin production during 2001.

The successful well fracturing program at the onshore Waalwijk field continued during 2000. Two more wells were fractured and the results exceeded

expectations, with a capability increase of 14.5 mmcf/d gross (Gulf share, 16.7 per cent). By the end of 2000, the Waalwijk field was producing at 41 mmcf/d gross during its high nomination call period. The last remaining well in the Waalwijk field is likely to be fractured during 2001.

As a result of the success that Gulf has achieved in the design and implementation of the fracture stimulations at Waalwijk and other offshore discoveries, the European Commission has funded the Company to further refine the fracture stimulation techniques that are utilized to enhance production and improve recovery in these fields.

In August 2000, approximately two years after Gulf took over operatorship, the three millionth barrel of oil was sold from the Kotter/Logger fields. These fields had been slated for abandonment in 1998 by the previous owners. Production in 2000 averaged 2,900 b/d (Gulf share 100 per cent). Upgrading the water handling facilities and increasing pumping capacity should maintain a rate of 2,700 b/d during 2001. A plan is being considered with the objective of extending field life through 2003.

These developments, combined with an innovative approach, are significant steps in achieving Gulf's objective of doubling gas production from the Netherlands in the next two years and tripling overall production in the next five years.

Indonesia

Gulf Indonesia Resources Limited had another successful year, producing 46,600 boe/d and laying a solid foundation for future growth.

During the year, Gulf drilled another important follow-up well to further delineate the Suban reservoir in South Sumatra. Suban 4 confirmed that this is a major discovery. Each of the last two wells drilled into the Suban reservoir (Suban 4 and Durian Mabok 2) has a sustainable productive capability of more than 100 mmcf/d. The low CO_2 content of the gas means that it will require little processing, so that development costs are expected to be less than US$1/boe and operating costs are expected to be less than US$0.50/boe. Over 3 tcf (Gulf share over 1.6 tcf) of proved plus probable reserves have been booked for the Suban field over the past three years, of which roughly one-third is in the proved undeveloped category and the remainder is classified as probable reserves. Approximately 1.1 tcf of gas (Gulf share 600 bcf) from the Suban field is dedicated to the Caltex II gas sales contract that was signed at the end of 2000. To further define the size of the Suban field, the Company commenced drilling the Suban 5 delineation well before the end of the year and three more wells are planned for 2001. The Company feels that the Suban field has the potential to be 4 tcf or more (2.2 tcf Gulf share) in size, which would provide substantial uncontracted gross gas reserves for the next set of potential new domestic and international gas sales contracts. A reservoir of this size could support additional sales of 300 mmcf/d (Gulf share) over and above the current contracted amounts.

2000 also saw the development of additional oil reserves on the Company's properties. Twenty-eight oil infill and stepout development wells drilled in the Bentayan and Ramba fields contributed 2,500 b/d of oil (Gulf share 1,500 b/d) in 2000. Gulf's share of incremental production from the Jambi EOR contract area reached record levels in the third quarter of 2000 at 2,800 b/d, increasing onshore oil production in Indonesia by the fourth quarter of 2000 to 14,900 b/d, the highest level since the early 1990s. Approximately 40 onshore oil development wells are planned for 2001 with additional potential identified in the southeast extension of the Bentayan field.

In preparation for delivering 20 mmcf/d (net to Gulf) of gas to new customers, the West Natuna Transportation System (including a 656 kilometre pipeline) and Kakap upstream facilities were completed four months ahead of schedule. Under the original contract, gas sales start on July 15, 2001, but because of the accelerated project schedule, the Company negotiated an early sales agreement to cover gas sales prior to that date. Gulf's target for sales in the year is 12 mmcf/d, with actual sales dependent on the buyer's demand.

“To be successful through the ups and downs of the energy price cycle, exploration and production companies have to do many things well. They need to know when to explore, when to develop and when to buy or sell. Fundamentally, it comes down to using your capital in the way that maximizes value. And that's what we're about at Gulf: we look to create value over the long term.”

Henry W. Sykes
Executive Vice President,
Business Development

expand

Gulf actively manages its asset portfolio to increase ownership and control in core areas. Acquisitions and divestments ensure that properties continue to meet the Company's strategic needs, while offering the potential for added value through the application of Gulf's expertise. In addition, the Company continually seeks new and in some cases innovative markets for hydrocarbons which might otherwise remain in the ground. In addition to the routine acquisitions and divestments, 2000 was particularly notable for the acquisition of Crestar Energy.

Key areas of expansion are:

Indonesia

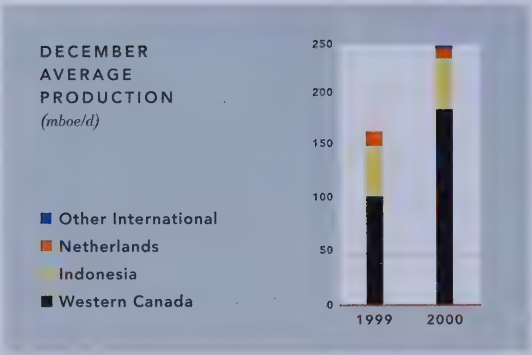
- The challenge in Indonesia is to find markets for reserves discovered through a successful exploration program. Gulf met that challenge with one long-term gas sales contract signed in late 2000 and a second signed in early 2001.

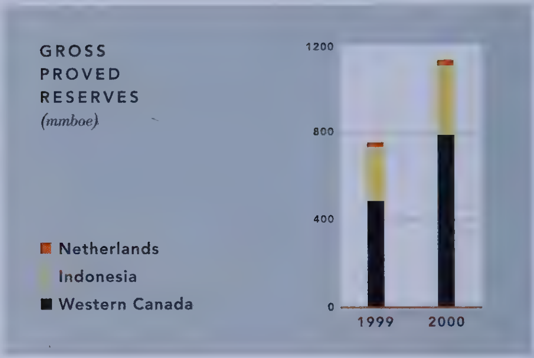
Western Canada

- Success in the Western Canadian sedimentary basin requires that many small things be done right. In 2000, Gulf acquired 219 mmboe of oil and gas reserves, while disposing of 12 mmboe of other reserves. These transactions improve the asset mix and balance in our portfolio.

Ecuador

- An interest in Block 16, acquired by Crestar in 2000, holds the potential to almost triple current production once additional pipeline capacity is available. Gulf will continue to evaluate opportunities to expand its presence in this prospective area.





Crestar Energy

In November 2000, Gulf acquired Crestar Energy in a transaction that completed Gulf's balance sheet restructuring and began an era of disciplined, focused growth. It brought immediate, near-term benefits, such as accretion to cash flow and earnings per share, while also providing the cash flow to help fund the development of Gulf's unique portfolio of long-term growth assets.

The transaction also created a substantial presence in North America's gas markets, where Gulf's year-end gas production rose by 94 per cent over the year to a December average of 583 mmcf/d. This makes Gulf the sixth largest Canadian independent producer of North American gas.

In total, the new Gulf had a December average gas production of approximately 795 mmcf/d; a 52 per cent increase on the previous December. The new Gulf had year-end proved gas reserves of 3.6 tcf; a 58 per cent increase.

Total liquids production also rose substantially, to a December average of 142,000 b/d; an increase of 56 per cent over the 12 months.

The combined organization's total proved year-end gross reserves are 1,142 million boe (with Canadian gas at 10:1). This makes Gulf the largest Canadian independent company on the basis of gross proved and probable reserves, with over 2.3 billion boe of reserves.

Gulf's new portfolio is better balanced, with gas production in December 2000 accounting for approximately 40 per cent of the total (25 per cent of total boes in North America). Geographically, 74 per cent of total production is in North America, which provides a secure base while preserving exposure to growth opportunities abroad.

Syncrude

2000 saw several major accomplishments. Notably, the Stage Two expansion project (Gulf share, $90 million) was completed. Productive capability at the Stage Two design rate of 24,000 b/d (net to Gulf) was demonstrated late in the year.

The Stage Three expansion project, which calls for the opening of a new mine at Aurora and a major upgrading expansion, is scheduled for a final decision in mid-2001. If approved, the project should increase volumes by 40 per cent, bringing Gulf's share up to over 32,000 b/d when it is completed in late 2004.

A planned fourth phase of expansion could increase production by a similar volume and be on stream by 2008.

Indonesia

Further gas sales contracts, supplied from Gulf's South Sumatran gas fields, have been secured by Gulf Indonesia. A new 19-year agreement was signed with Caltex for an incremental daily contract quantity of 65 mmcf/d of gas commencing in 2003. Early in 2001, an agreement was also signed with Singapore Power for an additional daily contract quantity of 42 mmcf/d by the third quarter of 2003, increasing to a daily contract quantity of 110 mmcf/d by 2009.

Together with two earlier contracts, these gas sales agreements represent an estimated gross revenue to Gulf of over US$7 billion at current prices during the term of the contracts. Notwithstanding these sales volumes, the Company believes substantial additional reserves exist in its Indonesian production sharing contract areas. As a result, the Company continues to develop its asset base and seek new buyers, both for existing gas reserves and for reserves it may discover in the future.

Ecuador

In June of 2000, Crestar purchased a 14 per cent interest in Block 16 of Ecuador. The block covers 519,000 acres and is operated by Repsol-YPF. Only 12 of the Block's identified structures have been tested to date and the exploration success rate has been 100 per cent since 1987.

Block 16 field productivity at times exceeded 9,800 b/d (14 per cent share) during 2000, but net deliveries averaged 5,600 b/d because of lack of pipeline space and diluent, which currently restricts all operators producing heavy and medium grades of crude oil in Ecuador, including Gulf.

Major strides were made in 2000 towards the construction of a new export pipeline. In early 2001, the government authorized a construction proposal that was sponsored by the producers and includes Gulf's Block 16 as part of the supply commitment.

As a result of this development, it should be possible to more than double production by 2003.

The Block 16 consortium commenced a 2D and 3D seismic program in late 2000, as part of the plan to better delineate fields to move production from current levels to 14,000 b/d (Gulf share) when the new pipeline becomes available.

During 2000, six horizontal wells were drilled, resulting in initial production of 2,200 b/d (Gulf share) from the five wells tied in thus far. This drilling included the longest horizontal well drilled to date in the country, with a length of over 1,200 feet. One of the new wells drilled, Iro-5, also provided a significant extension to the Iro field boundary, with the estimate of original oil in place rising by 26 per cent to 227 million boe, or 31.7 million boe net to Gulf.

The following discussion and analysis should be read in conjunction with the Consolidated Financial Statements included in this report. The Consolidated Financial Statements have been prepared in accordance with generally accepted accounting principles in Canada. The impact of the significant differences between Canadian and United States accounting principles on the financial statements is disclosed in Note 24 to the Consolidated Financial Statements. Barrels of oil equivalent ("boe") is based on a conversion rate of ten mcf of natural gas for one barrel of oil in North America and six mcf of natural gas for one barrel of oil in the international segment.

Financial Highlights

During 2000 Gulf Canada Resources Limited ("Gulf" or the "Company") became a fundamentally stronger company.

In November 2000, Gulf acquired all of the outstanding shares of Crestar Energy Inc. ("Crestar"). This transaction completes a period of balance sheet restructuring which resulted in the Company attaining a net debt to net debt plus equity ratio of 41 per cent.

Cash generated from continuing operations was a record $1,095 million in 2000, up from $517 million in 1999 and $371 million in 1998. Higher commodity prices were the primary reason for improved cash generation. The Company returned to profitability with earnings of $148 million in 2000 compared to losses of $172 million and $548 million in 1999 and 1998, respectively. Earnings were significantly influenced by cash generation and by year over year variances in unusual items including gains or losses on asset sales and reductions in the carrying value of assets.

Gulf began the year with a capital budget of $520 million; however, as commodity prices strengthened, spending was increased to $600 million. The 2000 capital program replaced 370 per cent of the Company's 2000 production at a cost of $2.65 per proved boe.

Results From Operations

Gulf reports its year-to-year operations in seven business segments: North America, Petrovera, Syncrude, Indonesia, Netherlands, Other International and Corporate and Other North America. The following discussion should be read in conjunction with Note 23 to the Consolidated Financial Statements.

North America Oil & Gas

Cash generated from North America Oil & Gas was $800 million in 2000, up $389 million from 1999. The increase reflects the impact of significantly higher commodity prices combined with $159 million from the Crestar North American properties. This acquisition added 214 million boes of proved reserves in North America. Cash generated from operations in 1999 of $411 million was up from $348 million in 1998 as a result of significantly higher crude oil prices, partially offset by lower sales volumes as a result of asset sales in 1999 and 1998. Net operating income of $475 million in 2000 increased $319 million from 1999,

reflecting the higher commodity prices. Net operating income of $156 million in 1999 compares to a net operating loss of $307 million in 1998, largely due to higher cash generation from operations, reduced exploration expense and the absence of asset write-downs.

Net oil and gas revenues, excluding the effects of hedging, increased by $395 million to $945 million in 2000. The increase in liquids prices and natural gas prices was partially offset by higher royalties while the acquisition of Crestar contributed $181 million. Net oil and gas revenues in 1999 of $550 million decreased from $563 million in 1998 due primarily to the formation of the Petrovera Resources heavy oil partnership in mid-1999, which is reported as a separate segment. The formation of the partnership did not have a material impact on company-wide volumes over the three-year period as the heavy oil volumes inside the North America oil and gas segment approximate the Company's share of volumes in Petrovera.

Production operating expenses increased $0.30 per boe primarily as a result of higher purchased energy costs. Production operating expenses in 1999 decreased $0.33 per boe from 1998, as a result of cost reduction initiatives in Western Canada.

Other revenue net of other expenses impacted earnings positively by $8 million in 2000 and 1999 and by $7 million in 1998.

Exploration expenses of $43 million in 2000 compared with $31 million in 1999 and $103 million in 1998. The increase in 2000 was due to an increased capital spending program in response to a strong price environment while the decrease in 1999 was due to a reduced capital spending program as a result of a low crude oil price at the beginning of the year.

Depreciation, depletion and amortization of $282 million increased $58 million in 2000. The acquisition of Crestar contributed $49 million combined with the $20 million write-down of certain U.S. lands to estimated net realizable value which more than offset declines due to Petrovera. This combined with reserve changes resulted in an increase in the depreciation, depletion and amortization rate per boe from $8.23 in 1999 to $10.42 in 2000. Depreciation, depletion and amortization of $224 million in 1999 was $328 million lower than the $552 million charge in 1998 due to lower production volumes, and a $249 million write-down of certain Western Canadian oil and natural gas assets in 1998.

North America conventional oil and gas and heavy oil capital and exploration expenditures were $242 million in 2000 compared with $131 million in 1999 and $324 million in 1998. Proved reserve additions were 14 million barrels in 2000 compared with 12 million and 39 million for 1999 and 1998, respectively.

In 1999, Gulf announced that it had farmed out an interest in its East Coast acreage. The arrangement effectively carries Gulf's interest for seismic costs and one exploration well. Gulf's own expenditures not covered by the joint venture partnership were $2 million in 2000 and $1 million in 1999. East Coast offshore expenditures in 1998 of $7 million were related to a 7,300 kilometre seismic program.

In 1999, Gulf entered into an agreement with TOTALFINA S.A. to participate in the development of steam-assisted oil recovery operations in the Surmont and Kerrobert areas. Gulf's share of expenditures on these thermal pilot projects was $8 million in 2000 compared to $4 million in 1999, and $21 million in 1998. Spending in 2000 included $6 million related to the Surmont pilot project and $2 million on Kerrobert, while spending in 1999 was all related to the Surmont project.

Expenditures on infrastructure assets and injectants of $39 million in 2000, compared with $15 million in 1999 and $22 million in 1998.

North America Oil & Gas

VOLUMES SOLD (GROSS)	2000	1999	1998
Liquids (thousands of barrels per day)			
Conventional light crude oil	**25.2**	26.0	35.8
Conventional heavy crude oil	**5.0**	5.2	17.0
Natural gas liquids	**11.4**	11.5	16.6
Natural gas (millions of cubic feet per day)	**324**	318	369
PRICE*			
Liquids (dollars per barrel)			
Conventional light crude oil	**42.94**	25.77	18.30
Conventional heavy crude oil	**18.21**	14.59	9.31
Natural gas liquids	**33.51**	18.20	14.11
Natural gas (dollars per thousand cubic feet)	**5.18**	2.64	1.98

North America Oil & Gas*

	2000		1999		1998	
	$ millions	$/boe**	$ millions	$/boe**	$ millions	$/boe**
Gross oil and gas revenues	**1,190**	**43.84**	653	24.03	652	16.76
Royalties	**(245)**	**(9.03)**	(103)	(3.79)	(89)	(2.31)
Net oil and gas revenues	**945**	**34.81**	550	20.24	563	14.45
Other revenues	**14**	**0.53**	26	0.94	30	0.76
Operating						
Production	**(153)**	**(5.69)**	(147)	(5.39)	(222)	(5.72)
Other expenses	**(6)**	**(0.22)**	(18)	(0.65)	(23)	(0.59)
Exploration expenses	**(43)**	**(1.57)**	(31)	(1.19)	(103)	(2.65)
Depreciation, depletion and amortization expenses	**(282)**	**(10.42)**	(224)	(8.23)	(552)	(14.23)
Net operating income (loss)	**475**	**17.44**	156	5.72	(307)	(7.98)
Non-cash items	**325**	**11.99**	255	9.42	655	16.88
Cash generated	**800**	**29.43**	411	15.14	348	8.90
Capital and exploration expenditures						
Conventional oil and gas ***	**242**		131		324	
East Coast offshore	**2**		1		7	
Thermal projects	**8**		4		21	
Infrastructure assets	**13**		4		7	
Injectants	**26**		11		15	
	291		151		374	
Gross proved reserve additions (millions of boes)	**14**		12		39	

* excludes hedging
** based on barrels of oil equivalents sold
*** includes USA spending of $0 million, $0 million and $14 million for the three years ended December 31, 2000, 1999 and 1998 respectively.

Petrovera

Gulf owns a 46.7 per cent interest in Petrovera Resources, a heavy oil partnership with PanCanadian Petroleum Limited, formed June 15, 1999. As a result, only part-year operations are reported for 1999.

Cash generated from operations was $109 million in 2000 compared to $44 million in 1999. This increase is the result of higher commodity prices combined with a full year of operations for the partnership, partially offset by higher operating costs. Operating expenses for 2000 increased to $8.13 per boe ($51 million) from $7.81 per boe ($29 million) in 1999 due to an active well servicing program in response to the overall strong oil and gas prices.

A net operating loss of $17 million compares to net operating earnings of $1 million in 1999. This reflects an $83 million increase in depreciation, depletion and amortization expense partially offset by higher commodity prices. Included in the depreciation, depletion and amortization charge in 2000 is an impairment provision associated with the Petrovera assets of $51 million as a result of revisions to reserve estimates and changes to Petrovera's development plans.

Gulf's share of capital expenditures by Petrovera was $65 million in 2000 compared to $20 million in 1999. Finding and development costs over the two-year period were $7.73 per boe.

Petrovera

	2000		1999	
	$ millions	$/boe	$ millions	$/boe
Gross oil and gas revenues	**181**	**28.96**	85	22.56
Royalties	**(21)**	**(3.38)**	(12)	(3.23)
Net oil and gas revenues	**160**	**25.58**	73	19.33
Operating expenses	**(51)**	**(8.13)**	(29)	(7.81)
Exploration expenses	**(1)**	**(0.22)**	(1)	(0.17)
Depreciation, depletion and amortization expenses	**(125)**	**(20.04)**	(42)	(11.10)
Net operating (loss) income	**(17)**	**(2.81)**	1	0.25
Non-cash items	**126**	**20.26**	43	11.27
Cash generated	**109**	**17.45**	44	11.52
Capital and exploration expenditures	**65**		20	
Gross proved reserve additions (millions of boes)	**9**		2	
VOLUMES SOLD (GROSS)				
Conventional heavy crude oil (thousands of barrels per day)	**15.8**		9.6	
Natural gas (millions of cubic feet per day)	**13**		7	
PRICE				
Liquids (dollars per barrel)	**27.77**		22.20	
Natural gas (dollars per thousand cubic feet)	**4.40**		2.78	

Syncrude

Net operating income from Gulf's 9.03 per cent interest in the Syncrude Project increased to $114 million in 2000 from $86 million in 1999 and $27 million in 1998. Cash generated also increased in 2000 to $132 million from $103 million in 1999 and $45 million in 1998. This increase is the result of a 57 per cent improvement in the West Texas Intermediate crude oil price offset by higher royalties, a 28 per cent increase in operating expenses and a six per cent decrease in sales volumes.

Gulf's share of Syncrude's 2000 net revenues was $252 million, an increase of $55 million from $197 million in 1999. The increase is a result of higher crude oil prices offset by higher royalty expense and a decrease in sales volumes. Net revenues from Syncrude increased 42 per cent in 1999 to $197 million from $139 million in 1998. This was the result of a $7.50 per barrel increase in the price of Syncrude oil, partially offset by higher royalty expense. The Syncrude royalty is sensitive to revenues less operating expenses and capital expenditures.

Operating expenses were $120 million in 2000, an increase of $26 million from $94 million in 1999. The increase in operating expenses was due to the shutdown of both cokers for maintenance during 2000. There were also increased costs associated with operational difficulties experienced during the year combined with higher purchased energy costs. Operating expenses of $94 million in 1999 include a one-time adjustment for the early adoption of accounting for employee future benefits to be consistent with Gulf's policy.

In 2000, Gulf's share of sales volumes decreased to 18,800 b/d from 19,900 b/d in 1999. Syncrude incurred operational difficulties combined with two coker shutdowns during the year compared to no shutdowns in 1999. Sales volumes in 1999 increased from the 1998 average level of 18,900 b/d.

Gulf's share of capital expenditures at Syncrude was $45 million in 2000 compared to $68 million in 1999. The decrease in capital spending is a result of the completion of the Aurora mine and Debottleneck II projects during the year, which added 119 million barrels of reserves in 2000 and contributed to the high capital expenditures in 1999. The completion and start-up of the Aurora mine in July brought completion of the second stage of the four stage expansion plan announced in October 1997. Capital expenditures in 1999 increased $25 million from $43 million in 1998, mainly due to the second train of the North mine, the Vacuum Distillation Unit and the Aurora Gas Power Generator.

Syncrude

	[illegible]		1999		1998	
	[illegible]	[illegible]	$ millions	$/bbl	$ millions	$/bbl
Gross oil revenues	**304**	**44.26**	201	27.70	139	20.20
Royalties	**(52)**	**(7.57)**	(4)	(0.54)	0	0.03
Net oil revenues	**252**	**36.69**	197	27.16	139	20.23
Other revenues	**0**	**0.01**	0	(0.02)	1	0.10
Operating expenses	**(120)**	**(17.39)**	(94)	(12.92)	(95)	(13.76)
Depreciation, depletion and amortization expenses	**(18)**	**(2.58)**	(17)	(2.40)	(18)	(2.61)
Net operating income	**114**	**16.73**	86	11.82	27	3.96
Non-cash items	**18**	**2.58**	17	2.40	18	2.61
Cash generated	**132**	**19.31**	103	14.22	45	6.57
Capital and exploration expenditures	**45**		68		43	
Gross proved reserves additions (millions of barrels)	**119**		0		0	
VOLUMES SOLD (thousands of barrels per day)	**18.8**		19.9		18.9	
SYNCRUDE PRICE (dollars per barrel)	**44.26**		27.70		20.20	

Indonesia

Gulf owns 72 per cent of Gulf Indonesia Resources Limited and consolidates its results. The Indonesian segment consists of onshore operations, which are mainly focused on the island of Sumatra, and offshore operations located in the West Natuna Sea.

Cash generated of $464 million increased $213 million from 1999, reflecting higher commodity prices and lower operating expenses partially offset by increased royalties. Cash generated in 1999 of $251 million increased $170 million from $81 million in 1998, reflecting higher oil prices and the full year impact of the Corridor Gas Project.

Net operating income of $334 million increased $203 million from 1999, reflecting a 68 per cent improvement in the hedged liquids price and an 84 per cent improvement in the natural gas price partially offset by a 79 per cent increase in royalties. The full year impact of the Corridor Gas Project and higher oil prices combined with the decreased cost of operating and exploration expenses were the main contributors to operating income of $131 million in 1999 compared to a net operating loss of $40 million in 1998.

Net oil and gas revenue for 2000 was $512 million, including $4 million of hedging losses, compared to $302 million for the same period last year. This reflects a $16.81 per barrel increase in the average hedged liquids price year over year and a $2.55 per mcf increase in the average natural gas price year over year. Royalties increased in 2000 due largely to higher commodity prices. Net oil and gas revenue in 1999 was $302 million compared with $122 million in 1998, reflecting a $6.47 per barrel increase in the average hedged liquids price year over year combined with an additional $156 million net gas revenue from the Corridor Gas Project.

Operating expenses for 2000 decreased to $2.90 per boe ($49 million) from $3.03 per boe ($53 million) in 1999, largely due to the installation of pre-treatment facilities at the Corridor Block Gas Plant. Operating expenses in 1999 decreased to $3.03 per boe ($53 million) from $4.69 per boe ($41 million) in 1998 largely due to the addition of relatively low cost production from the Corridor Gas Project.

Exploration expenses increased by $10 million to $27 million for 2000. The Company drilled ten exploration wells in 2000 compared with five in 1999. Of the total exploration wells drilled, six of the exploratory wells were dry in 2000 while only one was dry in 1999. Exploration expenses in 1999 decreased by $33 million from $50 million in 1998 due to a reduced level of activity.

Capital expenditures and exploration expenses in 2000 replaced 436 per cent of production at a finding and development cost of $1.68 per boe. Over the three year period reserve additions replaced an average of 425 per cent of production at a finding and development cost of $3.00 per boe.

Indonesia*

	2000		1999		1998	
	$ millions	$/boe	$ millions	$/boe	$ millions	$/boe
Gross oil and gas revenues	**625**	**36.73**	365	21.03	148	17.04
Royalties	**(113)**	**(6.62)**	(63)	(3.62)	(26)	(3.02)
Net oil and gas revenues	**512**	**30.11**	302	17.41	122	14.02
Other revenues	**1**	**0.06**	2	0.08	0	0.00
Operating expenses	**(49)**	**(2.90)**	(53)	(3.03)	(41)	(4.69)
Exploration expenses	**(27)**	**(1.60)**	(17)	(0.95)	(50)	(5.74)
Depreciation, depletion and amortization expenses	**(103)**	**(6.04)**	(103)	(5.96)	(71)	(8.22)
Net operating income (loss)	**334**	**19.63**	131	7.55	(40)	(4.63)
Non-cash items	**130**	**7.64**	120	6.91	121	13.96
Cash generated	**464**	**27.27**	251	14.46	81	9.33
Capital and exploration expenditures		**126**		97		284
Gross proved reserve additions (millions of boes)		**75**		42		52
VOLUMES SOLD (GROSS)						
Liquids (thousands of barrels per day)		**18.9**		20.8		20.5
Natural gas (millions of cubic feet per day)		**166**		161		20
PRICE						
Liquids (unhedged, dollars per barrel)		**42.06**		25.37		18.24
Liquids (hedged, dollars per barrel)		**41.52**		24.71		18.24
Natural gas (dollars per thousand cubic feet)		**5.58**		3.03		1.60

* includes hedging

Netherlands

Net operating income from Gulf's Netherlands North Sea operations increased to $28 million in 2000, compared to a net loss of $2 million in 1999 and net operating income of $1 million in 1998. Higher commodity prices and lower exploration expenses more than offset the decline in sales volumes in the year. Cash generated also increased to $76 million in 2000 from $59 million in 1999 and $73 million in 1998.

Netherlands North Sea gas sales for 2000 were 39 mmcf/d, down from 53 mmcf/d in 1999, and liquid sales were 2,900 b/d, down from 4,100 b/d in 1999. During 1999, Gulf sold its 7.5 per cent interest in the F15 non-operated production license located in the Dutch North Sea for cash. Production associated with this asset averaged 5 mmcf/d.

Exploration expenses of $10 million were $6 million lower than the $16 million in 1999. The Company drilled five exploration wells in 2000, which resulted in four gas discoveries and a commercial success rate for the Netherlands exploration program of over 60 per cent in the last three years. The finding and development costs averaged $5.58 per boe for the last three years. The offshore Q4-A field came on stream in late 2000, on schedule and on budget, the successful well fracturing program at the onshore Waalwijk field continued during the year as well as upgrades to the Kotter/Logger facilities.

Depreciation, depletion and amortization of $38 million decreased $7 million in 2000 due to lower production volumes. The rate per boe increased to $11.21 per boe in 2000 from $9.52 per boe in 1999 due to reserve changes.

Netherlands

	2000 $ millions	2000 $/boe	1999 $ millions	1999 $/boe	1998 $ millions	1998 $/boe
Gross oil and gas revenues	**98**	**28.72**	84	17.86	95	19.84
Royalties	**(1)**	**(0.26)**	(1)	(0.26)	(2)	(0.39)
Net oil and gas revenues	**97**	**28.46**	83	17.60	93	19.45
Other revenues	**0**	**0.00**	0	0.13	5	0.94
Operating expenses	**(21)**	**(6.26)**	(24)	(5.11)	(25)	(5.12)
Exploration expenses	**(10)**	**(2.86)**	(16)	(3.36)	(10)	(1.99)
Depreciation, depletion and amortization expenses	**(38)**	**(11.21)**	(45)	(9.52)	(62)	(13.01)
Net operating income (loss)	**28**	**8.13**	(2)	(0.26)	1	0.27
Non-cash items	**48**	**14.07**	61	12.88	72	15.00
Cash generated	**76**	**22.20**	59	12.62	73	15.27
Capital and exploration expenditures	**60**		44		51	
Gross proved reserve additions (millions of boes)	**9**		13		7	
VOLUMES SOLD (GROSS)						
Liquids (thousands of barrels per day)	**2.9**		4.1		2.6	
Natural gas (millions of cubic feet per day)	**39**		53		63	
PRICE						
Liquids (dollars per barrel)	**35.01**		20.06		13.07	
Natural gas (dollars per thousand cubic feet)	**4.31**		2.82		3.33	

Other International

The other international segment includes Ecuador, the North Sea in the United Kingdom, Australia and various other exploration prospects.

Ecuador

As part of the acquisition of Crestar, Gulf now has a 14 per cent working interest in the Block 16 concession in Ecuador. As a result, only eight weeks of operations are reported for 2000. Oil sales averaged 700 b/d in 2000, while net operating income was $2 million and cash generated from operations was $4 million. Capital and exploration expenditures were $3 million and depreciation, depletion and amortization expenses were $2 million.

United Kingdom

In May 1998, Gulf divested of its North Sea operations in the United Kingdom. Oil production associated with these assets averaged 7,200 b/d in 1998. Cash generated from operations was $37 million, and net operating income was $6 million in 1998. Exploration and depreciation, depletion and amortization expenses were $2 million and $29 million, respectively, in 1998.

Australia

In the third quarter of 1999 Gulf sold its Australian assets. Total 1999 sales were 6,500 boe/d with cash generation of $34 million and earnings of $14 million.

During 1998, sales from Australia averaged 9,300 boe/d, with average oil and liquids sales of 5,600 b/d and natural gas of 23 mmcf/d. This resulted in cash generation of $32 million and net operating income of $1 million.

As part of Gulf's divestitures program, a 1.2 per cent interest in a South West Queensland Unit and associated natural gas production was sold for net proceeds of $33 million in 1998.

Total capital and exploration expenditures for 1999 were $9 million, down from $28 million in 1998. Exploration and depreciation, depletion and amortization expenses for 1999 were $4 million and $16 million, compared with $7 million and $24 million, respectively, in 1998.

Other Holdings

Gulf sold the majority of its other international holdings in 1998. These properties had liquid sales of 500 b/d and natural gas sales of 1 mmcf/d, resulting in cash generation of $1 million and a net operating loss of $22 million in 1998. Capital and exploration expenditures in Algeria and Tunisia were $6 million in 2000 compared to capital spending in Algeria and the Ivory Coast of $6 million in 1999. Capital and exploration expenditures in Mongolia, Algeria, Yemen, Argentina, Syria, Libya, Romania, the Falklands and the Ivory Coast amounted to $45 million in 1998. Depreciation, depletion and amortization expenses were $7 million in 2000, which includes a $5 million charge associated with Gulf's withdrawal from the Ivory Coast. Exploration expense was $20 million in 1998, relating primarily to activity in Mongolia and Algeria, and depreciation, depletion and amortization expenses were $3 million.

Other International

	2000		1999		1998	
	$ millions	$/boe	$ millions	$/boe	$ millions	$/boe
Gross oil and gas revenues	**8**	**30.19**	46	19.02	109	17.45
Royalties	**(1)**	**(6.20)**	1	0.53	(8)	(1.24)
Net oil and gas revenues	**7**	**23.99**	47	19.55	101	16.21
Other revenues	**0**	**0.38**	0	(0.14)	3	0.63
Operating expenses	**(3)**	**(7.34)**	(16)	(6.81)	(34)	(5.53)
Exploration expenses	**(4)**	**(14.91)**	(1)	(0.54)	(28)	(4.62)
Depreciation, depletion and amortization expenses	**(9)**	**(32.50)**	(17)	(6.79)	(65)	(10.07)
Net operating (loss) income	**(9)**	**(30.38)**	13	5.27	(23)	(3.38)
Non-cash items	**13**	**47.41**	18	7.33	93	14.69
Cash generated	**4**	**17.03**	31	12.60	70	11.31
Capital and exploration expenditures	**9**		15		91	
Gross proved reserve additions (millions of boes)	**0**		0		2	
VOLUMES SOLD (gross)						
Liquids (thousands of barrels per day)	**0.7**		4.0		13.3	
Natural gas (millions of cubic feet per day)	**0**		15		24	
PRICE						
Liquids (dollars per barrel)	**30.19**		22.40		19.85	
Natural gas (dollars per thousand cubic feet)	**0.00**		2.29		2.14	

Corporate and Other North America

The Company's hedging program is designed to mitigate downside risk while providing Gulf with a reliable level of cash flow upon which to base capital expenditures. Gulf's hedging activity, which relates to commodity price and exchange rate contracts, decreased pre-tax earnings and cash generation by $199 million (not including $4 million related to Indonesia) in 2000; this compares with a net loss of $112 million in 1999 and earnings of $58 million in 1998. Higher market crude oil and natural gas prices were the main reason for the loss in 2000.

During 2000, the Company incurred a net gain on asset disposals and provision for other losses of $86 million, compared with a $129 million loss in 1999 and a $252 million loss in 1998. Additional information is provided in Note 2 to the Consolidated Financial Statements.

Other revenue net of other expenses, which includes the Company's interest in Gulf Midstream Services, impacted earnings positively by $1 million compared to $8 million in 1999 and $13 million in 1998. Results for 1999 benefited from a $5 million foreign exchange gain.

Pension settlement and restructuring charges in 2000 related to the annuitization of Gulf's defined benefit pension plan and additional charges for organizational changes, in 1999 the closure of the Denver Executive office and Y2K costs and in 1998 the annuitization of the Company's defined benefit pension plan and $39 million of restructuring charges relating to organizational changes.

General and administrative expenses increased by $11 million to $45 million in 2000. This increase is largely due to the Crestar acquisition combined with a higher charge to earnings for long-term benefits, which are tied to the increase in the Gulf stock performance during the period. The 1999 restructuring and relocation of Gulf's Executive office to Calgary resulted in lower general and administrative expenditures of $34 million compared to $62 million in 1998. On a unit-of-production basis, general and administrative costs were $0.73 per boe compared with $0.55 per boe for 1999.

Finance charges for 2000 were $277 million, an increase of $31 million over 1999. At the end of 2000, the Company issued an irrevocable notice to redeem the 9.25 per cent debentures, which resulted in a non-cash charge of $44 million primarily reflecting recognition of the deferred foreign exchange loss. The Crestar acquisition also added an additional $9 million for 2000. Finance charges for 1999 were $246 million, down by $32 million over 1998. Additional amortization of deferred foreign exchange on U.S. dollar-denominated debt in 1988 accounted for $45 million of the net decrease. This was partially offset by the capitalization of $22 million of the Corridor Project interest in 1998.

Gulf's total income tax expense was $300 million in 2000 compared to $23 million in 1999 and income tax recovery of $325 million in 1998. Information regarding variations from the expected tax rate is provided in Note 5 to the Consolidated Financial Statements. Current income taxes were $51 million in 2000 compared to $28 million in 1999 and $20 million in 1998. Almost all of this increase is attributable to Gulf's operations in Indonesia.

Corporate and Other North America

(millions of dollars)	2000	1999	1998
Hedging gains (losses), net	**(199)**	(112)	58
Net gain (loss) on asset disposals and provision for other losses	**86**	(129)	(252)
Other revenue	**9**	17	80
Operating expenses – other	**(8)**	(9)	(67)
Depreciation, depletion and amortization	**(4)**	(3)	(1)
Pension settlement and restructuring charges	**(4)**	(5)	(45)
General and administration	**(45)**	(34)	(62)
Finance charges, net	**(277)**	(246)	(278)
Income tax (expense) recovery	**(300)**	(23)	325
Minority interest	**(35)**	(13)	12
Net loss	**(777)**	(557)	(230)
Non-cash items	**287**	175	(16)
Cash required	**(490)**	(382)	(246)
Capital expenditures	**4**	5	7

Liquidity and Capital Resources

(millions of dollars)	2000	1999
Long-term debt (including current portion)	**2,462**	2,145
Less cash and short-term investments*	**(381)**	(278)
Net debt	**2,081**	1,867
Equity	**3,009**	1,566
Net debt/net debt plus equity	**41%**	54%

* includes cash restricted in use

Gulf's long-term debt increased by $317 million to $2,462 million as $380 million of debt repayments (net) were exceeded by the $626 million of debt assumed in the Crestar acquisition and a foreign exchange impact of $59 million. Cash improved by $103 million to $381 million as the $1,124 million of cash provided by operating activities was in excess of investing activities of $629 million (before restricted cash investment) and net debt repayments of $380 million as discussed above. Equity improved by $1,443 million to $3,009 million primarily as a result of $1,298 million of equity issued for the Crestar acquisition and earnings of $148 million. Refer to Note 9 to the Consolidated Financial Statements for additional details of the Crestar acquisition.

As a result of the changes in net debt and equity the Company's ratio of debt to equity improved from 54 per cent to 41 per cent. With this improved financial strength, at the end of 2000, the Company issued an irrevocable notice to redeem the 9.25 per cent debentures on February 5, 2001. On January 8, 2001, Gulf offered US$300 million of ten-year Senior Notes at an interest rate of 7.125 per cent. The proceeds will be used mainly to repay the 9.25 per cent 2004 subordinated debentures. This transaction will save the Company approximately $9 million in finance costs during 2001 and subsequent years.

Going into 2001, the Company has a current portion of long-term debt totalling $70 million and cash on hand of $381 million, including $148 million of cash restricted in use, primarily for the purpose of debt repayment. Looking beyond 2001, the Company has debt repayment obligations of $94 million, $154 million, $64 million and $685 million for the period from 2002 to 2005, respectively. The Company also has a committed but undrawn credit facility of US$500 million and uncommitted operating bank lines of $187 million.

Gulf filed with the Toronto Stock Exchange a notice of intention to purchase up to five per cent of its ordinary shares from time to time in accordance with the normal course issuer bid procedures under Canadian securities law. The filing was effective for a 12-month period commencing December 7, 2000. During December 2000, Gulf purchased 1.9 million ordinary shares for cancellation at an average cost of $7.00 per share. To the end of February 2001, we have acquired 3.4 million additional shares at an average cost of $7.84 per share, bringing cumulative purchases to 5.3 million shares. The market price of Gulf's shares does not always accurately reflect their value and therefore the Company may purchase ordinary shares at prices that are an appropriate use of funds and are in the best interests of Gulf and its shareholders.

Gulf's 2001 capital budget is currently $1.2 billion, budgeting almost 67 per cent in Western Canada, 20 per cent in Indonesia, nine per cent in the Netherlands and the remaining four per cent for frontier work in Northern and Eastern Canada and North Africa. Gulf currently expects to finance this budget without increasing net debt.

Risk Management

Gulf is exposed to a variety of risks, including changes in commodity prices, foreign currency exchange rates and interest rates. Control is maintained through the separation of trading and accounting functions, as well as through daily mark-to-market reporting. Gulf has not engaged in any significant speculative foreign exchange or oil and gas price transactions. For more information on these exposures, see Note 19 to the Consolidated Financial Statements.

Oil and Gas Prices

Gulf's results of operations are dependent upon the difference between prices received for its oil and natural gas production and the costs to find and produce such oil and natural gas. The Company's major market risk exposure is in the pricing applicable to its oil and gas production. Realized pricing is primarily driven by the prevailing worldwide price for crude oil and spot prices applicable to its natural gas production. Historically, prices received for oil and natural gas production have been volatile and unpredictable. Pricing volatility is expected to continue.

The Company periodically enters into hedging activities with respect to a portion of its projected oil and natural gas production. Gulf may use futures contracts, swaps, options and fixed-price physical contracts to hedge its commodity prices. Gains or losses on derivative contracts are expected to offset variability in the spot market price or to preserve the margin on existing physical contracts. Realized gains or losses from the Company's hedging activities are recognized in oil and natural gas production revenues when the associated production occurs. Gulf does not hold or issue any significant amount of derivative instruments for trading purposes.

Foreign Currency Exchange Rates

Gulf's reported results from operations are affected by the exchange rate between the Canadian dollar and other currencies, particularly the U.S. dollar. Prices for substantially all of Gulf's Western Canada oil and liquids production and approximately 40 per cent of its natural gas are U.S. dollar-denominated, while most of its expenses (with the exception of interest costs on U.S. dollar-denominated debt), are denominated in Canadian dollars. The Company's reported cash flows relating to international operations are based on the Canadian dollar equivalent of cash flows measured in foreign currencies. Netherlands revenues are based in U.S. dollars, while costs are denominated in Dutch guilders. Substantially all of the Company's other international transactions are denominated in U.S. dollars. Transactions in foreign currencies are converted to Canadian dollar amounts based on the exchange rates prevailing on the dates the transactions occur.

During 1998 and 1999, Indonesia's economy suffered major setbacks. One of the results from this crisis was the decline in value of the Indonesian Rupiah against the U.S. dollar. The Indonesian Rupiah/U.S. dollar exchange rate fluctuated significantly throughout 1998 but in the latter part of 1998 showed signs of strengthening. One short-term consequence of the devaluation of the Indonesian Rupiah is that a shortage of U.S. dollars created a very tight fiscal situation for state agencies. However, Pertamina, the Indonesian state oil company, made significant efforts to prevent payment delays and is currently maintaining normal payment practices with its crude oil revenue payments. The currency volatility is not expected to have a material long-term impact on the Company's financial position as all current revenues are U.S. dollar-denominated, all major contracts entered into are in U.S. dollars and Rupiah-denominated expenses are limited to approximately 10-15 per cent of the Company's overall expenditure profile. In addition, natural gas is exchanged for exportable Duri crude oil pursuant to a 15-year contract.

To mitigate the impact of exchange rate fluctuations on revenues, Gulf hedges its U.S. dollar exposure in two ways. First, it seeks to incur its debt in U.S. dollars. Based on Gulf's U.S. dollar-denominated debt at December 31, 2000, a one per cent ($0.015) change in the value of the U.S. dollar relative to the Canadian dollar would result in a $21 million unrealized gain or loss on the carrying amount of such debt and would affect cash generation by $27 million.

Second, Gulf undertakes forward sales of U.S. dollars into Canadian dollars. There can be no assurance that the Company's foreign currency hedging activities will substantially offset the impact of fluctuations in currency exchange rates on its results of operations and financial position. Based on Gulf's forward contracts at December 31, 2000, a one per cent ($0.015) increase in the value of the U.S. dollar relative to the Canadian dollar would result in an increase in cumulative losses to 2001 on settlement of these contracts of $3 million. This sensitivity measure is the undiscounted before-tax cash flows realized on the contracts based on the foreign exchange forward curve.

Both of these strategies offer benefits to the Company in the event of a decline in the U.S. dollar relative to the Canadian dollar by decreasing its Canadian dollar equivalent cost of debt service obligations and by creating a gain on the forward sales of U.S. dollars.

Interest Rates

At December 31, 2000, about $400 million, or 16 per cent, of Gulf's total debt was floating rate or was converted to a variable rate through interest rate swaps. The impact on annual before-tax cash flow of a ten per cent change in the floating rate (approximately 65 basis points) would be $3 million. All of Gulf's $577 million of preference shares pay dividends based on floating rates. A similar rate change would result in approximately a $3.2 million change in dividends.

Sensitivities

Based on current production and price estimates and current hedge positions the estimated effect on the Company's financial results for 2001 of a change in the following factors is set out below:

(millions of dollars)		Cash generated from continuing operations
Production volumes	Oil and liquids — 1,000 b/d	6
	Natural gas — 10 mmcf/d	10
Price changes (1) (2)	Oil and liquids — US$1.00 per bbl	62
	Natural gas — (Canada) — Cdn$0.10 per mcf	14
Exchange rate (2)	US$/Cdn$ — one cent change	(27)
Interest rate (2)	1% change in interest rates	2

(1) The cash generation sensitivity is non-linear for price changes. Oil and liquids sensitivity is based on oil prices in the mid-US$20s.

(2) The impact of hedging contracts in place at December 31, 2000 has been included.

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of Gulf Canada Resources Limited ("Gulf") is responsible for preparing the accompanying consolidated financial statements. The consolidated financial statements were prepared in accordance with accounting principles generally accepted in Canada and are necessarily based in part on management's best estimates and judgements. When alternative accounting methods exist, management has chosen those it deems most appropriate in the circumstances. The financial information included elsewhere in the Annual Report is consistent with that contained in the consolidated financial statements.

Gulf maintains a system of internal control including an internal audit function. Management believes that this system of internal control provides reasonable assurance that financial records are reliable and form a proper basis for preparation of financial statements. The internal control process includes communication to employees of Gulf's standards for ethical business conduct.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal controls. The Board exercises this responsibility through its Audit Committee, none of whom are officers or employees of Gulf. The Committee meets with management, its internal auditors and the independent auditors to satisfy itself that each group is properly discharging its responsibilities and to review the consolidated financial statements and the independent auditor's report. The Audit Committee reports its findings to the Board of Directors for consideration in approving the consolidated financial statements for issuance to the shareholders. The Committee also considers, for review by the Board and approval by the shareholders, the engagement or re-appointment of the external auditors.

The consolidated financial statements have been examined by the independent auditors, Ernst & Young LLP, and their report follows. The independent auditors have full and free access to the Audit Committee.

R.H. Auchinleck
President and Chief Executive Officer

M.R. Coutu
Senior Vice President and Chief Financial Officer

Calgary, Canada
February 20, 2001

AUDITORS' REPORT

To the Shareholders of Gulf Canada Resources Limited:

We have audited the consolidated statements of financial position of Gulf Canada Resources Limited as at December 31, 2000 and 1999 and the consolidated statements of earnings (loss) and retained earnings (deficit) and cash flows for each of the years in the three-year period ended December 31, 2000. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Canada. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2000 and 1999 and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2000, in accordance with accounting principles generally accepted in Canada.

Ernst & Young LLP
Chartered Accountants

Calgary, Canada
February 20, 2001

CONSOLIDATED STATEMENTS OF EARNINGS (LOSS) AND RETAINED EARNINGS (DEFICIT)

Years ended December 31

(millions of dollars, except per share amounts)	2000	1999	1998
EARNINGS (LOSS)			
Revenues			
Net oil and gas (Note 3)	**$ 1,774**	$ 1,140	$ 1,076
Other	**24**	45	119
	1,798	1,185	1,195
Expenses			
Operating – production	**397**	363	417
– other	**14**	27	90
Exploration	**85**	66	191
General and administration	**45**	34	62
Depreciation, depletion and amortization (Note 2)	**579**	451	769
Net (gain) loss on asset disposals and provision for other losses (Note 2)	**(86)**	129	252
Pension settlement and restructuring charges (Note 2)	**4**	5	45
Finance charges, net (Note 4)	**277**	246	278
Income tax expense (recovery) (Note 5)	**300**	23	(325)
Minority interest	**35**	13	(12)
	1,650	1,357	1,767
Earnings (loss) from continuing operations	**148**	(172)	(572)
Discontinued operations (Note 6)	**0**	0	24
Earnings (loss) for the year	**$ 148**	$ (172)	$ (548)
RETAINED EARNINGS (DEFICIT)			
Balance, beginning of year	**$ (747)**	$ (495)	$ 84
Retroactive restatement for post-retirement benefits policy (Note 1)	**0**	(50)	0
As restated	**(747)**	(545)	84
Earnings (loss) for the year	**148**	(172)	(548)
Dividends declared on preference shares (Note 16)	**(34)**	(30)	(31)
Balance, end of year	**$ (633)**	$ (747)	$ (495)
PER SHARE INFORMATION (Note 7)			
Basic and fully diluted			
Earnings (loss) from continuing operations	**$ 0.30**	$ (0.58)	$ (1.73)
Earnings (loss)	**$ 0.30**	$ (0.58)	$ (1.66)

(See summary of significant accounting policies and notes to consolidated financial statements.)

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended December 31

(millions of dollars, except per share amounts)		1999	1998
OPERATING ACTIVITIES			
Earnings (loss) from continuing operations	$ 148	$ (172)	$ (572)
Non-cash items included in earnings (loss)			
Depreciation, depletion and amortization (Note 2)	579	451	769
Net (gain) loss on asset disposals and provision for other losses (Note 2)	(86)	129	252
Amortization of deferred foreign exchange losses (Note 4)	57	26	71
Pension settlement and restructuring charges (Note 2)	2	(3)	22
Exploration expense	85	66	191
Future income taxes (Note 5)	249	(5)	(345)
Other, net	61	25	(17)
Cash generated from continuing operations	1,095	517	371
Other long-term liabilities	(26)	(55)	(18)
Changes in non-cash working capital (Note 8)	59	36	8
Other, net	(4)	4	(8)
	1,124	502	353
INVESTING ACTIVITIES			
Proceeds on asset disposals	253	284	1,019
Advance from sale of Midstream assets (Note 2)	(96)	0	100
Acquisitions (Note 9)	(217)	0	(67)
Capital expenditures and exploration expenses	(600)	(400)	(850)
Cash restricted in use (Note 14)	(31)	(113)	(4)
Changes in non-cash working capital (Note 8)	(2)	(87)	(19)
Other, net	33	(35)	36
	(660)	(351)	215
FINANCING ACTIVITIES			
Increase (decrease) in short-term debt	0	(44)	4
Proceeds from issue of long-term debt	819	201	540
Long-term debt repayments	(1,199)	(464)	(943)
Regular dividends declared on preference shares	(34)	(30)	(31)
Issue of equity	34	2	59
Repurchase of shares (Note 16)	(12)	0	0
Settlement of rate swap (Note 2)	0	0	(40)
	(392)	(335)	(411)
Increase (decrease) in cash	72	(184)	157
Cash at beginning of year	161	345	188
Cash at end of year [1]	$ 233	$ 161	$ 345
PER SHARE INFORMATION (Note 7)			
Cash generated from continuing operations	$ 2.78	$ 1.39	$ 0.98

(1) Comprises cash and short-term investments.

(See summary of significant accounting policies and notes to consolidated financial statements.)

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

December 31

(millions of dollars)	[illegible]	1999
ASSETS		
Current		
Cash and short-term investments	$ 233	$ 161
Cash restricted in use (Note 14)	148	117
Accounts receivable (Notes 19 (b) and 22)	450	309
Future income taxes (Note 5)	15	10
Other (Note 10)	128	130
	974	727
Investments, deferred charges and other assets (Note 11)	183	189
Unallocated cost related to Crestar acquisition (Note 9)	460	0
Property, plant and equipment (Notes 9 and 12)	7,314	4,519
	$ 8,931	$ 5,435
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Accounts payable	$ 519	$ 353
Current portion of long-term debt (Note 14)	70	68
Current portion of other long-term liabilities (Note 15)	23	28
Other (Note 13)	189	134
	801	583
Long-term debt (Note 14)	2,392	2,077
Other long-term liabilities (Note 15)	330	380
Future income taxes (Note 5)	2,153	625
Minority interest	246	204
	5,922	3,869
Commitments and contingent liabilities (Notes 19 and 20)		
SHAREHOLDERS' EQUITY		
Share capital (Note 16)		
Senior preference shares	577	577
Ordinary shares	3,042	1,721
Contributed surplus (Note 16)	33	35
Retained earnings (deficit)	(633)	(747)
Foreign currency translation adjustment (Note 18)	(10)	(20)
	3,009	1,566
	$ 8,931	$ 5,435

(See summary of significant accounting policies and notes to consolidated financial statements.)

Approved by the Board

Robert H. Allen
Director

Walter B. O'Donoghue
Director

Principles of Consolidation The consolidated financial statements of Gulf Canada Resources Limited ("Gulf" or the "Company") include the accounts of all subsidiary companies. Substantially all of the activities of Gulf are conducted jointly with others, and these financial statements reflect the proportionate interest in such activities. Investments in companies in which Gulf exercises significant influence are accounted for on the equity basis.

The consolidated financial statements have been prepared by management in accordance with accounting principles generally accepted in Canada. A summary of the differences between accounting principles generally accepted in Canada and those generally accepted in the United States ("US") is contained in Note 24 to these statements.

Cash and Short-Term Investments Short-term investments with maturities less than three months are considered to be cash equivalents and are recorded at cost, which approximates market value.

Inventories Product inventories are valued at the lower of average costs and market value. Materials and supplies are valued at the lower of average cost and net realizable value.

Property, Plant and Equipment The successful efforts method of accounting is followed for oil and gas exploration and development costs. The initial acquisition costs of oil and gas properties and the costs of drilling and equipping successful exploratory wells are capitalized. The costs of unsuccessful exploration wells are charged to earnings. All other exploration costs are charged to earnings as incurred. All development costs, including the cost of liquid injectants used in enhanced oil recovery projects, are capitalized. Maintenance and repairs are charged to earnings; renewals and betterments, which extend the economic life of the assets, are capitalized.

Capitalized costs of proved oil and gas properties are amortized using the unit-of-production method based on estimated gross proved oil and gas reserves. Depreciation of plant and equipment is based on estimated remaining useful lives of the assets using either the straight-line method or the unit-of-production method. Individually insignificant unproved properties are amortized on a group basis at rates determined after considering past experience and lease terms. Certain costs relating to significant acquisitions and major projects remain undepreciated pending evaluation or completion of development.

As changes in circumstances warrant, the net carrying values of proved properties, plant and equipment, and significant unproved properties are assessed to ensure that they do not exceed future cash flows from use or disposal. The estimated future costs to dispose of an asset or to exit an activity are recognized at the time that a commitment to such action is made.

Transportation and Marketing Costs Costs incurred in relation to transportation and marketing of oil and gas products are classified as net oil and gas revenues in the Consolidated Statement of Earnings (Loss).

Environmental and Site Restoration Liabilities Future obligations for site restoration costs, including dismantling plants and abandoning properties, are provided for using the unit-of-production method or, where appropriate, the estimated remaining useful lives of the related assets. Accruals for other potential environmental remediation obligations, such as those related to discontinued downstream operations, are made when management believes that Gulf has an obligation for remediation and the anticipated costs can be estimated within a reasonable range.

[illegible] Assets and liabilities of self-sustaining foreign subsidiaries are translated into Canadian dollars at year-end exchange rates. The resulting unrealized exchange gains or losses are reflected in shareholders' equity. Revenues and expenses are translated using the average rates of exchange during the year.

Assets and liabilities of all other foreign subsidiaries and all other transactions in foreign currencies are translated into Canadian dollars at the exchange rates prevailing at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at year-end exchange rates. Exchange gains or losses are included in earnings with the exception of the unrealized gains or losses on translation of long-term monetary liabilities, which are deferred and amortized over the remaining terms of such liabilities on a straight-line basis.

Pensions and Other Post-Retirement Benefits The pension plans, which cover Canadian employees, have both defined benefit and defined contribution options, which are company funded. The cost of the defined benefit option reflects management's best estimates of the pension plan's expected investment yields, salary escalation, mortality of members, terminations and the ages at which members will retire. Defined benefit pension plan assets are reported at market values. Adjustments arising from plan amendments, transitional surplus, experience gains and losses and changes in assumptions are amortized on a straight-line basis over the estimated average remaining service lives of the employees. The unamortized balance of such costs has been charged to earnings upon Gulf's decision to annuitize the defined benefit plan. The cost of the defined contribution option reflects specific amounts contributed on behalf of participating employees during the year. The costs of post-retirement benefits other than pensions, including dental, medical and life insurance to eligible retired employees, is determined using the projected benefit method prorated on services and is expensed as services are rendered. Prior to the adoption of the new recommendations, post-retirement benefits other than pensions were accounted for on a cash basis.

Financial Instruments A financial instrument is recognized when a contractual benefit or obligation exists for the future receipt or payment of monetary amounts and is recorded at inception at the fair value of consideration paid or received, along with the costs of acquisition or issuance. A financial instrument held for disposal or settlement is carried thereafter at the lower of original cost or market value. One held over the long term or to maturity is carried at original cost and is assessed as circumstances warrant to ensure that its carrying value does not exceed its recoverable amount. Income or expense on a financial instrument is recognized in each period on an accrual basis. A premium or discount on debt bearing an interest rate different from the prevailing market rate and its costs of issuance are deferred and amortized over the life of the debt.

Derivative Instruments Gulf enters into physical and financial forward sales contracts, options and swap agreements to manage its exposure to changes in commodity prices, exchange rates and interest rates. Gains and losses on the contracts that meet the definition of a hedge are recognized in the financial statements when the hedged transactions occur and are included in the measurement of such transactions. Changes in the market values of derivatives that do not meet the definition of a hedge, or that arise subsequent to when they cease to be effective hedges, are recognized as gains and losses in the earnings of each period. Such gains or losses are recorded in other revenues.

A derivative meets the definition of a hedge when all of the following criteria are met:

- Gulf has an identified risk exposure to commodity prices, exchange rates, interest rates or some other risk factor related to an asset or a liability, a contractual commitment or a planned future transaction.
- There is an offsetting relationship between the cash flows of the derivative and those of the identified risk to be hedged.
- Management intends to use the derivative to hedge the exposure. The derivative is therefore designated as a hedge at its inception.

If a hedge is terminated early, or if the designation of a derivative as a hedge is discontinued, any accumulated gain or loss up to that time continues to be deferred until the hedged transaction occurs. If the term of a derivative used as a hedge extends beyond the date of the hedged transaction, any deferred gain or loss at that date is included in the measurement of the hedged transaction; gains and losses thereafter are recognized in earnings on an accrual basis. If the occurrence of a hedged transaction ceases to be likely, any deferred gain or loss on the hedge is recognized in income immediately. An individually significant loss is included in the 1998 provision for other losses in Gulf's Consolidated Statement of Earnings (Loss).

Income Taxes Gulf uses the liability method in accounting for income taxes whereby future tax assets and liabilities are determined based on differences between the financial reporting and tax bases of assets and liabilities and measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse. The effect on future tax assets and liabilities of a change in rates is recognized in earnings in the period in which the change is substantially enacted.

Measurement Uncertainty Certain items recognized in the financial statements are subject to measurement uncertainty. The recognized amounts of such items are based on Gulf's best information and judgement. Such amounts are not expected to change materially in the near term. These include:

- The amounts recorded for depletion, depreciation, amortization and impairment of property, plant and equipment and future site restoration costs depend on estimates of oil and gas reserves or the economic lives and future cash flows from related assets. The provision for future site restoration costs also depends on estimates of such costs based on current legislation.
- The recognized amounts of other potential environmental claims and liabilities depend on estimates of the magnitude and probability of future costs.
- The values of pension obligations and assets and the amount of pension costs charged to earnings depend on certain actuarial and economic assumptions.
- The amounts recorded for assets and liabilities of acquired companies depend on estimates of their fair values on the acquisition date and are subject to subsequent adjustment over a one-year period.
- The recognized future costs of exiting activities and disposing of assets depend on estimates of such amounts.

Stock-Based Compensation The Company has a stock-based compensation plan which consists of stock options and other equity instruments; these are further described in Note 17. When stock options are issued to employees, no compensation expense is recognized. Any consideration paid by employees on the exercise of stock options or purchase of stock is credited to share capital. The future obligations associated with other equity instruments are accrued over the vesting period to which they relate and recognized as an expense. Any cash payments or exercises made with respect to these instruments are recognized as a reduction to the liability.

Changes in Accounting Policies

Post-retirement benefits

In 1999 Gulf adopted the new recommendations of the Canadian Institute of Chartered Accountants with respect to accounting for employee future benefits. This change was applied retroactively, but prior years' financial statements were not restated. The change is reflected in the consolidated financial statements effective January 1, 1999, and the opening balance of retained earnings (deficit) was restated by $50 million accordingly.

Unusual Items

Net (gain) loss on asset disposals and provision for other losses

Year ended December 31				1999		1998
Gain on sale of Midstream assets (a)	$	**(68)**	$	0	$	(232)
Net (gain) loss on other asset disposals (b)		**(9)**		135		90
Provision for expected losses on future asset disposals (c)		**0**		0		309
Loss on interest rate swap agreement		**0**		0		40
Other (d)		**(9)**		(6)		45
	$	**(86)**	$	129	$	252

(a) In 1998, the Company sold 50 per cent of its Western Canadian natural gas gathering and processing facilities, pipelines and gas products facilities, as well as its natural gas and gas products marketing business for total cash consideration of $290 million. Gulf's retained interest was combined with that of the purchaser in the jointly controlled Gulf Midstream Services Partnership and GMS Facilities Ltd. (collectively "GMS"). Gulf also received $100 million subject to a future capital obligation (see Note 22).

Effective September 1, 2000, Gulf sold its remaining 50 per cent interest in GMS to the initial purchaser for a net gain of $68 million. This included the settlement of the $100 million future capital obligation. Pursuant to the purchase and sale agreement, should Gulf acquire any midstream assets in defined areas of mutual interest, Gulf is obligated to offer these acquired assets to the purchaser at fair market value within 180 days of the acquisition. The purchaser has the right to reject or accept this offer, whereby fair market value is subject to negotiation.

(b) In 2000 and 1999, the net loss on other asset disposals included the divestment of the Company's Australian assets and certain Western Canadian assets. In 1998, the net loss on disposals included the divestment of various Western Canadian and international conventional, oil sands, and offshore oil and natural gas properties, and an interest in a pipeline project.

(c) The provision for expected losses on future asset disposals is the reduction to estimated realizable value in the carrying amounts of assets of which the Company divested, along with estimated associated employee severance costs. The 1998 provision related to the sale of non-core and international conventional oil and natural gas properties.

(d) Other provisions consist largely of impairments of investments and future obligations.

Reduction in carrying value of assets

As a result of changes in economic circumstances, the Company recorded a provision of $79 million in 2000 and $249 million in 1998 for the write-down or write-off of certain oil and natural gas assets. The write-down reflects the excess of net carrying amounts over recoverable amounts as measured by undiscounted estimated future net cash flows. The 1998 provision has been reclassified to depletion, depreciation and amortization for comparative purposes.

Pension settlement & restructuring charges

Year ended December 31				1999		1998
Restructuring charges (a)	$	**2**	$	6	$	39
Pension settlement (b)		**2**		(1)		6
	$	**4**	$	5	$	45

(a) Restructuring charges pertain to costs and write-offs resulting from organizational changes.

(b) The charges in 2000 and 1998, as well as the gain in 1999, relate to the performance of the pension assets.

Note 3 Net Oil and Gas Revenues

The following transportation and other marketing costs are included in net oil and gas revenue:

Year ended December 31		1999	1998
Pipeline tariffs, transportation and marketing costs	**$ 129**	$ 125	$ 96

Finance Charges, Net

Year ended December 31		1999	1998
Cash expenses			
Interest			
Long-term debt	**$ 200**	$ 209	$ 223
Short-term debt	**2**	1	4
Interest income on short-term investments	**(18)**	(12)	(12)
Interest on net debt position (a)	**184**	198	215
Interest on income tax refunds	**(3)**	(1)	(4)
Other	**13**	8	1
	194	205	212
Non-cash expenses			
Amortization of deferred foreign exchange losses	**57**	26	71
Amortization of post-retirement benefits	**3**	0	0
Other, net	**23**	15	(5)
	$ 277	$ 246	$ 278

(a) Net debt comprises long-term debt and short-term debt less cash and short-term investments and cash restricted in use.

During 2000, the Company paid cash interest expense of $210 million (1999 – $235 million; 1998 – $229 million).

Income Tax Expense (Recovery)

The income tax expense (recovery) reflects an effective tax rate which differs from the Canadian statutory rate of 44 per cent. This difference is mainly the result of the following:

Year ended December 31		1999	1998
Earnings (loss) from continuing operations before income taxes			
Canadian	**$ 80**	$ (152)	$ (740)
Foreign	**368**	3	(157)
	$ 448	$ (149)	$ (897)
Computed income tax expense (recovery) at the statutory rate	**$ 200**	$ (66)	$ (323)
Non-deductible and non-taxable amounts related to:			
Net capital gains	**(5)**	59	(16)
Amortization of assets with no or partial tax basis	**17**	20	14
Sales and write-downs of assets with no or partial tax basis	**0**	5	(8)
Crown royalties and other payments to governments	**126**	43	31
Syncrude remission order	**(15)**	(1)	0
Non-recognition of tax relief due to lack of certainty	**44**	9	31
Minority interest	**16**	6	(5)
Resource allowance	**(99)**	(45)	(44)
Capital tax	**14**	11	10
Other	**2**	(18)	(15)
Income tax expense (recovery)	**$ 300**	$ 23	$ (325)
Current	**$ 51**	$ 28	$ 20
Future	**249**	(5)	(345)
Income tax expense (recovery)	**$ 300**	$ 23	$ (325)

Foreign taxes account for $38 million, $17 million and $21 million of the current taxes and $147 million, $51 million and $(55) million (recovery) of the future taxes in 2000, 1999 and 1998, respectively.

Cash taxes paid, net of tax refunds received, were $38 million for the year ended December 31, 2000 (1999 – $14 million; 1998 – $25 million).

Components of future income taxes:

The future income tax liability and asset are comprised of the following:

December 31	[illegible]	1999
Long-term future income tax liabilities		
Additional values assigned to assets in connection with acquisitions	**$ (1,171)**	$ (507)
Other differences between tax bases and reported amounts of depreciable assets	**(1,157)**	(296)
Differences between tax bases and reported amounts of financial instruments	**(23)**	(33)
Provisions for site restoration and environmental costs	**36**	32
Oil indexed debenture	**0**	9
Capital loss carried forward	**3**	3
Provincial royalty rebates	**62**	62
Taxable capital gains on JECs	**(10)**	(17)
Tax credits carried forward (a)	**41**	52
Post-retirement benefits liability	**38**	41
Other temporary differences	**28**	29
	$ (2,153)	(625)
Current future income tax assets		
Reclamation/Environment	**$ 6**	3
Severance	**3**	4
Other temporary differences	**6**	3
	$ 15	10

(a) The expiration dates of tax credit carry forwards as at December 31, 2000 are:

Expiration dates	2001	2002	2003	2004	2005	Subsequent To 2005
Amounts (millions of dollars)	0	1	1	1	1	2

The Company will utilize $35 million of tax credit carry forwards in the 1996-00 tax returns.

At December 31, 2000, the Company had $23 million unused non-capital tax loss carry forwards which expire at various times up to and including 2005 (1999 – $241 million). At December 31, 1999 and 2000, the Company had $127 million unused net-capital tax loss carry forwards to be used in future years. The Company has $335 million of deductible temporary differences for which no future income tax asset has been recognized at December 31, 2000 (1999 – $242 million).

Discontinued Operations

Discontinued operations relate to Asamera Minerals Inc. and environmental costs for Gulf's former downstream operations. In 1998, a gain of $24 million was realized on the sale of non-producing land in the United States. There were no income taxes applicable to this transaction.

Per Share Information

Earnings (loss) per ordinary share and cash generated from continuing operations per ordinary share were calculated after the deduction of cumulative preference share dividend requirements of $34 million, $30 million and $31 million for 2000, 1999, and 1998, respectively. The weighted average number of ordinary shares outstanding was 381,194,675 for 2000, 349,127,490 for 1999 and 348,399,257 for 1998.

Note 8 Changes in Non-Cash Working Capital

Year ended December 31		2000		1999		1998
Decrease (increase) in non-cash working capital						
Accounts receivable	**$**	**(141)**	$	(41)	$	78
Future income taxes		**(5)**		9		(19)
Other current assets		**2**		3		(12)
Accounts payable		**166**		60		(127)
Other current liabilities		**55**		(43)		48
		77		(12)		(32)
Items not having a cash effect		**(20)**		(39)		21
	$	**57**	$	(51)	$	(11)
The change relates to the following activities:						
Operating	**$**	**59**	$	36	$	8
Investing		**(2)**		(87)		(19)
	$	**57**	$	(51)	$	(11)

Note 9 Acquisitions

Year ended December 31		2000		1999		1998
Crestar Energy Inc. (a)	**$**	**162**	$	0	$	0
Other oil and gas assets		**55**		0		67
	$	**217**	$	0	$	67

(a) Acquisition of Crestar Energy Inc.

Effective November 6, 2000, Gulf acquired all of the issued and outstanding common shares of Crestar Energy Inc. ("Crestar") for total consideration of $179 million in cash and 188,089,141 Gulf ordinary shares. Costs associated with the acquisition were $50 million. The acquisition was accounted for using the purchase method. Gulf's consolidated financial statements include the operating results of the acquired business from November 6, 2000. For December 31, 2000 financial reporting purposes, the allocation of the purchase price was done on a preliminary basis. The final allocation will be determined in 2001.

The purchase price has been allocated as follows:

Property, plant and equipment	$	2,862
Unallocated cost		460
Investments and other assets		14
Working capital		71
Future income taxes		(1,196)
Long-term debt (including current portion)		(626)
Other long-term liabilities		(58)
		1,527
Less: Cash and short-term investments acquired		(67)
Ordinary shares issued		(1,298)
	$	162

The following discloses the pro forma operating results for December 31, 2000 and 1999 as though Crestar had been acquired at the beginning of the year:

Year ended December 31		2000		1999
Revenues	**$**	**2,545**	$	1,713
Earnings (loss)		**271**		(245)
Earnings (loss) per share (dollars)		**0.43**		(0.50)

Note 10 Other Current Assets

December 31	[illegible]	1999
Product inventories	$ 19	$ 20
Materials and supplies	86	79
Prepaid expenses	23	26
Other	0	5
	$ 128	$ 130

Investments, Deferred Charges and Other Assets

December 31	[illegible]	1999
Deferred foreign exchange loss on long-term debt	$ 60	$ 58
Deferred long-term debt placement costs	72	86
Deferred long-term debt interest costs	13	0
Portfolio investments	24	23
Loans receivable from related companies (Note 22)	0	7
Other	14	15
	$ 183	$ 189

Note 12 Property, Plant and Equipment

December 31		[illegible]	
	Gross Book Value	Accumulated Depreciation, Depletion and Amortization	Net Book Value
Exploration and production			
North America	$ 6,704	$ 1,706	$ 4,998
International	2,609	881	1,728
Syncrude	593	171	422
Oil sands and coal	201	104	97
Other	121	52	69
	$ 10,228	$ 2,914	$ 7,314
Net carrying value of property, plant and equipment not being amortized			$ 1,209

December 31		1999	
	Gross Book Value	Accumulated Depreciation, Depletion and Amortization	Net Book Value
Exploration and production			
North America	$ 3,794	$ 1,406	$ 2,388
International	2,289	737	1,552
Syncrude	569	178	391
Oil sands and coal	198	106	92
Other	139	43	96
	$ 6,989	$ 2,470	$ 4,519
Net carrying value of property, plant and equipment not being amortized			$ 1,415

Note 13 Other Current Liabilities

December 31		[illegible]		1999
Accrued interest	$	59	$	67
Income and other taxes payable		69		31
Accrued payroll, bonuses and other employee costs		6		11
Accrued acquisition costs		19		1
Other		36		24
	$	189	$	134

Note 14 Long-Term Debt

December 31		[illegible]		1999
Bank credit facilities	$	70	$	87
Debentures and notes				
6.45% Medium Term Notes, due 2007		100		0
6.56% Senior Notes, due 2003 (US$52 million)		78		0
6.69% Senior Notes, due 2005 (US$20 million)		30		0
6.72% Senior Notes, due 2006 (US$48 million)		72		0
7.56% Senior Notes, due 2002 (US$20 million)		30		0
7.89% Senior Notes, due 2006 (US$40 million)		60		0
8.25% Senior Notes, due 2017 (US$225 million)		337		324
8.35% Senior Notes, due 2006 (US$250 million)		375		360
8.375% Senior Notes, due 2005 (US$200 million)		299		287
8.72% Senior Notes, due 2001 – 2005 (US$50 million)		75		0
9.25% Senior Subordinated Debentures, due 2004 (US$282 million)		423		432
9.625% Senior Subordinated Debentures, due 2005 (US$200 million)		300		289
Long-term secured loan (US$142 million)		213		354
Other		0		12
		2,462		2,145
Less installments due within one year		(70)		(68)
	$	2,392	$	2,077

Bank credit facilities

As of December 31, 2000, the Company had available $562 million under committed credit facilities, of which $70 million had been drawn. Gulf also had available uncommitted operating bank lines totalling approximately $187 million, of which none had been drawn, although the Company has issued approximately $30 million in "Letters of Credit". Interest rates on the committed and uncommitted facilities are based on the banker's acceptance rate or the London Interbank Offered Rate ("LIBOR") plus a spread, which varies between institutions and is based on certain financial tests. The average effective rate on the balances outstanding during 2000 was approximately 7.7 per cent on committed facilities and 6.9 per cent on uncommitted facilities. (1999 – 6.9 per cent and 5.6 per cent, respectively; 1998 – 6.2 per cent and 5.7 per cent, respectively).

Debentures and notes

US dollar debentures and senior notes are unsecured with interest paid semi-annually.

Long-term secured loan

In February 1997, the Company, along with its partner in the Corridor Block Gas Project ("the Project") entered into a Credit Agreement ("Corridor Loan") with various lending institutions. The Corridor Loan provided US$450 million of financing to fund the development of the Project. The borrowings are based on the LIBOR. Interest and commitment fees related to the Corridor Loan were capitalized until commercial production was reached during the first quarter of 1999 (1999 – $1 million, 1998 – $22 million), at which time they began to be amortized over the life of the asset on the unit-of-production basis. The project was completed in 2000 and the lenders' recourse under the Corridor Loan is limited to the Corridor production sharing contract asset pledged as collateral.

Under the terms of the Corridor Loan, the Project net cash flows contribute to certain cash reserve requirements which the Company reports as cash restricted in use. In addition, a specified percentage of the surplus cash is used to fund mandatory repayments with the remainder released to the company. At December 31, 2000 the cash restricted in use for the Project was $145 million (1999 – $110 million).

The expected minimum repayments on the Corridor loan were originally equal semi-annual installments which began in August, 1999 and end on February, 2007. The terms of the Corridor Loan have since been altered to reduce the cash restricted in use such that disbursements occur quarterly rather than semi-annually. The first quarterly installment occurred in November 2000. Mandatory and optional prepayments may also occur, depending on the cash flow generated by the Project. The weighted average rate on the balance outstanding at December 31, 2000 is approximately 8.4 per cent in comparison to 7.7 per cent in 1999.

Cash restricted in use

In addition to the cash restricted under the terms of the Corridor Loan, there are additional requirements of $3 million for margins posted with financial counterparties in connection with a subsidiary's operations at December 31, 2000 (1999 – $7 million).

Debt repayments

The Company's contractual minimum repayment requirements in respect of long-term debt for the five years following December 31, 2000, are expected to be 2001 – $70 million, 2002 – $94 million, 2003 – $154 million, 2004 – $64 million and 2005 – $685 million.

The maturity profile excludes the 9.25 per cent Senior Subordinated Debentures due 2004 as they were repaid in full on February 9, 2001 from the proceeds of a US$300 million Senior Notes offering due 2011 issued on January 10, 2001 (see Note 26).

Note 15 Other Long-Term Liabilities

December 31		[illegible]		1999
Provision for environmental and site restoration costs ((a) and Note 20)	$	**206**	$	150
Deferred asset disposal proceeds (Note 2 (a))		**0**		95
Employee future benefits (Notes 1 and 21)		**84**		84
Provision for future lease costs		**10**		18
Other		**53**		61
		353		408
Less current portion		**(23)**		(28)
	$	**330**	$	380

(a) $21 million of environmental and site restoration costs were charged to income in 2000 (1999 – $24 million; 1998 – $31 million).

Note 16 Share Capital

Authorized:

Senior preference shares – non-voting, unlimited number. These preference shares rank in priority to the ordinary shares and may be issued from time to time in series with the consideration per share, designation, attributes, including any preemptive, redemption or conversion rights, and the number of each series to be fixed by the directors prior to its issue.

Junior preference shares – non-voting, unlimited number. The attributes associated with these shares are substantially the same as the senior preference shares except that they rank junior to the senior preference shares.

Ordinary shares – voting, unlimited number without nominal or par value.

Issued and outstanding:

	Number	Amount
Senior preference shares:		
(At December 31, 1998, 1999 and 2000)		
Series 1 (a)	85,504,557	$ 428
Series 2 (b)	300	149
	85,504,857	$ 577
Ordinary shares:		
At December 31, 1997	338,653,361	$ 1,653
Issued pursuant to exercise of stock options (c)	419,950	2
Issued pursuant to ordinary share warrants (d)	9,876,733	62
Value of expired ordinary share warrants (d)	0	2
At December 31, 1998	348,950,044	1,719
Issued pursuant to exercise of stock options (c)	472,323	2
At December 31, 1999	349,422,367	1,721
Issued pursuant to exercise of stock options (c)	6,232,167	34
Issued for acquisition of Crestar (Note 9)	188,089,141	1,298
Shares redeemed (e)	(1,936,600)	(11)
At December 31, 2000	541,807,075	$ 3,042

(a) Cumulative dividends accumulate monthly at a floating rate based on the average prime rate of interest charged by specified Canadian banks, adjusted for a factor based on the market price of the Series 1 shares. These shares are redeemable, in whole or in part, at the option of Gulf at a price of $5.00 per share.

(b) Cumulative dividends are payable at rates determined by Gulf based on negotiations with holders of the shares, or by a dealer bid or by auction procedures. The shares are redeemable, in whole or in part, at the option of Gulf at the end of any dividend period upon written notice at an amount equal to $0.5 million per share.

(c) At December 31, 2000, pursuant to the terms of Gulf's Incentive Stock Option Plan (1994), options are outstanding to all employees to purchase an aggregate 24,184,713 ordinary shares. Under the plan, 513,702 shares are allocated but not reserved (1999 – 7,306,046 reserved but unallocated; 1998 – 955,670 reserved but unallocated).

(d) In 1995 the Company issued 13.75 million warrants to purchase one ordinary share each for $5.75 per share, originally expiring on January 25, 1998. By resolution of Gulf's Board of Directors, each warrant holder was given the option to extend the expiry of the warrants to December 15, 1998 in consideration for a strike price of $6.50 and subject to a hold period ending July 27, 1998. During 1998, 9.9 million warrants were converted to ordinary shares before the original expiry date and the balance expired on December 15, 1998.

(e) During 2000, the Company purchased and cancelled 1,936,600 ordinary shares at an aggregate cost of $13 million. The $2 million excess of the carrying value over the amount paid to repurchase these shares has been charged to contributed surplus.

The aggregate stated capital at December 31, 2000, for purposes of the Canada Business Corporations Act, of the senior preference shares and ordinary shares is $184 million and $3,053 million, respectively.

Stock-Based Compensation

Fixed-Option Plan

Gulf has a fixed-option plan. Pursuant to the terms of the Incentive Stock Option Plan (1994), Gulf may grant options to its employees for up to 34 million ordinary shares. Options are granted at the last board lot price of the shares on the day before the grant. The maximum term is ten years. They vest up to three years after the grant date.

A summary of the status of the Company's stock options as of December 31, 2000 and 1999 and changes during the years ended on those dates is presented below:

Stock Options			1999	
	Options (000)	Weighted Average Exercise Price	Options (000)	Weighted Average Exercise Price
Outstanding at beginning of year	**22,309**	**$ 7.46**	20,601	$ 7.85
Granted	**10,130**	**6.95**	3,518	5.41
Exercised	**(6,232)**	**(5.45)**	(472)	(5.26)
Expired	**(2,022)**	**(9.33)**	(1,338)	(8.85)
Outstanding at end of year	**24,185**	**$ 7.61**	22,309	$ 7.46
Options exercisable at end of year	**11,210**		13,980	
Weighted average fair value of options granted during the year		**$ 3.58**		$ 2.69

The following table summarizes information about stock options outstanding at December 31, 2000:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number Outstanding at 12/31/00 (000)	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price	Number Exercisable at 12/31/00 (000)	Weighted Average Exercise Price
\$ 3.52–\$ 4.40	1,368	5.0	$ 4.01	1,203	$ 4.07
\$ 5.10–\$ 7.00	9,229	9.3	6.65	1,665	6.28
\$ 7.05–\$ 8.90	8,341	7.7	7.33	3,095	7.28
\$ 9.10–\$12.55	5,247	6.3	10.68	5,247	10.68
	24,185	7.8	$ 7.61	11,210	$ 8.38

The Company's subsidiary, Gulf Indonesia Resources Limited ("Gulf Indonesia"), has a fixed option plan. Pursuant to the terms of the Gulf Indonesia Resources Limited 1997 Stock Option and Incentive Plan, implemented in August 1997, Gulf Indonesia may grant options to its employees at any time prior to December 31, 2007. The maximum number of common shares that may be issued at any time is ten per cent of the outstanding common shares. Options are granted at the last board lot price of the shares on the date before the grant and have a maximum term of ten years. Under the plan, 2,688,510 shares are reserved but unallocated (1999 – 3,009,219).

During 2000, Gulf Indonesia granted 738,125 options and cancelled 417,416 options (1999 – 369,250 and 54,034, respectively). At December 31, 2000, there were 6,097,625 options outstanding (1999 – 5,776,916). They vest up to three years after the grant date.

The Company has a 46.7 per cent partnership interest in the long-term incentive plan of Petrovera Resources ("Petrovera"). The Management Committee of the Partnership may grant officers and employees options, the value of which is related to the increase in net asset value of the Partnership units from the date of grant. Any cash distributions which have been made during the option period are added to the increase in net asset value for purposes of determining the benefit to be paid out. Upon exercise the value of the benefit is paid in cash. The estimated cost of the benefits is accrued by a charge to earnings over the period in which the options are earned.

During 2000, Petrovera granted 1,238,000 options and cancelled 89,000 options (1999 – 1,218,000 and 104,000, respectively). No options were exercised in either 2000 or 1999. The options are exercisable over a five year period from the date of grant. At December 31, 2000, there were 2,263,000 options outstanding (1999 – 1,114,000).

Long-Term Incentive Plan

As part of Gulf's executive compensation, Gulf has participated in the annual grants of stock options, Stock Appreciation Rights ("SARs"), Restricted Share Units ("RSUs"), Deferred Share Units ("DSUs") and the Leveraged Purchase Plan ("LPP").

(a) Stock Appreciation Rights

SARs are granted to Gulf's executive officers on an annual basis and serve as a cash vehicle which mirrors stock options. The SARs vest one-third on the date of grant and one-third on each of the first and second anniversaries of the grant with a maximum term of ten years. The gain on SARs is paid in cash.

			1999	
SARs	**Number (000)**	**Weighted Average Exercise Price**	Number (000)	Weighted Average Exercise Price
Outstanding at beginning of year	**2,053**	**$ 3.93**	0	$ 0.00
Granted	**921**	**5.24**	2,073	3.95
Exercised	**(284)**	**(8.27)**	(20)	(5.92)
Cancelled	**(232)**	**(4.13)**	0	0.00
Outstanding at end of year	**2,458**	**$ 3.90**	2,053	$ 3.93
SARs exercisable at end of year	**230**		180	

(b) Leveraged Purchase Plan

The executive officers and members of the Company's Board of Directors are eligible to participate in the LPP. The LPP is designed to reward an investment in Company shares; shares registered to the LPP program on March 31 each year attract SARs that vest if the underlying shares are still owned in two years' time. The LPP provides that for each ordinary share of Gulf acquired by the participant and held for two years, the participant will be granted three SARs. Only those shares which are received in lieu of cash compensation will be eligible for the LPP.

(c) Restricted Share Units

RSUs are granted annually to the executive officers and members of the Board of Directors. They mirror restricted shares and can be taken as either cash or stock at the time of exercise. The RSUs attract national dividends and count towards share ownership and vest after four years.

			1999	
RSUs	**Number (000)**	**Weighted Average Exercise Price**	Number (000)	Weighted Average Exercise Price
Outstanding at beginning of year	**431**	**$ 3.68**	0	$ 0.00
Granted	**280**	**5.11**	431	3.68
Cancelled	**(61)**	**(4.14)**	0	0.00
Outstanding at end of year	**650**	**$ 4.26**	431	$ 3.68
RSUs exercisable at end of year	**0**		0	

(d) Deferred Share Units

DSUs are granted annually to members of the Board of Directors and mirror actual shares. They can only be realized upon termination at the value of a share at that time. The DSUs attract national dividends and count towards share ownership and vest after four years.

			1999	
DSUs	**Number (000)**	**Weighted Average Exercise Price**	Number (000)	Weighted Average Exercise Price
Outstanding at beginning of year	**25**	**$ 4.75**	0	$ 0.00
Granted	**21**	**5.35**	25	4.75
Outstanding at end of year	**46**	**$ 5.03**	25	$ 4.75
DSUs exercisable at end of year	**0**		0	

For the stock-based compensation plans identified above, $6,116,000 was expensed to earnings for the year ended December 31, 2000 (1999 – $840,000; 1998 – nil).

In conjunction with the Executive Long-Term Incentive Plans, both the Executive and the Board of Directors follow Share Ownership Guidelines. By the end of 2001, participants will hold between one and three times their salary in Company shares.

Foreign Currency Translation Adjustment

Year ended December 31		[illegible]		1999
Balance, beginning of year	$	**(20)**	$	69
Current year's deferred translation adjustments		**19**		(104)
(Reduction) increase in net investment in foreign operations		**(9)**		15
Balance, end of year	$	**(10)**	$	(20)

Financial Instruments and Hedging Contracts

(a) Risk management

Gulf is exposed to fluctuations in oil and gas prices, electricity prices, exchange rates and interest rates and periodically enters into contracts to hedge or manage these exposures. Gulf is also exposed to risk of credit losses on instruments to the extent of non-performance by counterparties. For the oil and gas price instruments, credit risk is controlled through credit controls, limits, margin deposits and monitoring procedures. Gulf deals with multiple brokers to minimize credit risk. All exchange rate contracts are with major financial institutions and non-performance is not expected. Current exposure to credit losses on these instruments approximates their fair values as disclosed below.

(i) Oil and gas prices

Gulf has entered into a number of financial transactions to manage the price risk associated with its gas revenues throughout 2001. The majority of the transactions are intended to address two issues associated with Alliance pipeline gas transportation. First, in order to mitigate the price risk associated with significant additional gas deliveries to the Chicago area, Gulf entered into basis swaps of Chicago gas prices for Henry Hub, Louisiana NYMEX benchmark prices on approximately 40 mmcf/d of gas. Second, in order to mitigate the risk associated with potential operational problems of the pipeline, Gulf entered into basis swaps, out of monthly and into daily Chicago index prices, on approximately 24 mmcf/d of gas during January 2001. Gulf has also reduced its exposure to various regional gas prices on approximately 12 mmcf/d in 2001 to reduce the risk associated with regional price volatility.

At December 31, 2000 Gulf had physical fixed price gas sales contracts for 19 mmcf/d of 2001 gas production at an average plant gate price of $2.32/mcf.

At December 31, 2000, Gulf had also forward sold a portion of its 2001 liquids production, establishing an average expected floor price of US$24.00/b on approximately 7,500 b/d and an average ceiling price of US$31.10/b on 7,500 b/d.

Gulf has forward sold for 2001, at the monthly option of the purchaser, 32.5 mmcf/d of gas at a ceiling price of US$2.35/mcf or 5000 b/d of crude oil at a ceiling price of US$17.00/b.

(ii) Electricity prices

With the deregulation of electric energy in Alberta, Gulf has entered into contracts to stabilize electricity costs in the emerging, highly volatile Alberta market. Gulf has entered into financial contracts, which expire between 2003 and 2005, to fix the price on 22 megawatts of electric energy. Gulf also entered into a series of physical contracts via the Alberta Government Market Achievement Plan Auction. Through these financial and physical contracts Gulf has fixed prices on approximately 55 per cent of its 2001 electric energy requirements at an average price of approximately $105 per megawatt-hour before any Alberta Government rebates.

(iii) Exchange rates

A large portion of Gulf's sales are based on U.S. dollar pricing, partly offset by interest expense on its U.S. dollar debt. From time to time Gulf reduces this foreign exchange exposure through the forward sale of U.S. dollars. The timing and extent of such hedging is based on several factors, including market conditions and Gulf's total risk profile. At December 31, 2000, Gulf had entered into contracts and options for the forward sale in 2001 of US$210 million at exchange rates ranging between 0.751 and 0.782, and averaging 0.766.

(iv) Interest rates

With the acquisition of Crestar, Gulf assumed a series of interest rate swaps which converted the U.S. dollar fixed interest rate of a portion of Crestar's Senior Notes to a U.S. dollar floating interest rate. The swaps have a notional principal amount of US$82 million with an average term of 3.4 years, and they convert the underlying interest payments from an average fixed rate of 7.05 per cent to a floating rate of LIBOR plus 0.73 per cent.

(b) Sales of accounts receivable

Gulf has entered into an agreement giving it the right, on a continuing basis for extendible terms, to sell certain accounts receivable to an unrelated party to a maximum amount of $100 million. The agreement calls for purchase discounts, based on Canadian Bankers Acceptance rates, to be paid on an ongoing basis. Gulf retains a recourse obligation to provide additional accounts receivable of up to ten per cent of the amount sold, and an obligation to service the sold accounts, neither of which obligation is considered to have a material fair value. Total cumulative proceeds from such sales (including reinvestments of revolving-period collections) were $1,035 million in 2000, $832 million in 1999 and $960 million in 1998. The amounts sold at December 31, 2000 and 1999 were $99 million and $81 million, respectively.

(c) Oil indexed financial instrument

A special purpose entity had $200 million 11 per cent public debentures issued and outstanding assets consisting of a $200 million five per cent fixed plus variable rate oil indexed debenture and an interest rate swap agreement for the same amount and term of the debentures which converts the variable rate on the debenture into a six per cent fixed rate, all of which matured on October 31, 2000. These were not included in Gulf's December 31, 1999 statement of financial position because Gulf did not have the right and ability to obtain future economic benefits from the resources of the entity and was not exposed to the related risks, nor did Gulf have the continuing power to determine the strategic operating, investing, and financing policies of the entity without the cooperation of others.

Gulf had a related interest rate conversion agreement which expired October 31, 2000 whereby Gulf paid to the special purpose entity the fixed rate of six per cent and was eligible to receive a variable rate ranging from nil to 16.8 per cent, depending on the average quarterly West Texas Intermediate oil price. Gulf paid out the fixed-rate obligation for the remaining life of the swap on January 6, 1999 for $24 million.

Carrying amounts and estimated fair values of financial instruments:

Asset (liability)

December 31	2000		1999	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Portfolio investments	$ 24	$ 24	$ 23	$ 23
Long-term note receivable	10	10	10	10
Demand notes receivable	2	2	7	7
Long-term debt				
6.45% Medium Term Notes	(100)	(95)	0	0
6.56% Senior Notes	(78)	(77)	0	0
6.69% Senior Notes	(30)	(29)	0	0
6.72% Senior Notes	(72)	(71)	0	0
7.56% Senior Notes	(30)	(31)	0	0
7.89% Senior Notes	(60)	(62)	0	0
8.25% Senior Notes	(337)	(330)	(324)	(292)
8.35% Senior Notes	(375)	(392)	(361)	(355)
8.375% Senior Notes	(299)	(313)	(287)	(284)
8.72% Senior Notes	(75)	(88)	0	0
9.25% Senior Subordinated Debentures	(423)	(428)	(432)	(437)
9.625% Senior Subordinated Debentures	(300)	(317)	(288)	(296)
Long-term secured loan	(213)	(213)	(354)	(354)
Oil and gas price contracts	0	(80)	0	(47)
Foreign exchange contracts	0	(38)	0	(46)
Electricity price contracts	0	9	0	0
Interest rate swaps	0	1	0	0
Other long-term obligation	(23)	(31)	(27)	(30)

The following methods and assumptions were used in estimating the fair values of financial instruments:

Cash and short-term investments, cash restricted in use, accounts receivable and accounts payable: Terms are such that their carrying amounts approximate fair values.

Portfolio investments and long-term note receivable: Fair values are estimated to approximate carrying amounts based on their financial terms and prevailing market conditions.

Demand notes receivable: Interest is variable with current market rates and fair value therefore approximates carrying amount.

Long-term debt: Fair values of publicly traded notes and debentures payable are based on quoted market prices. Fair values of private placement notes (US$230 million total) are estimated using discounted cash flow analysis based on Gulf's borrowing rates for similar terms. Bank credit facilities, the long term secured loan and other long-term debt are at variable market rates and their fair values therefore approximate carrying amounts.

Oil, gas and electricity prices, foreign exchange and interest rate contracts: Fair values are estimated based on the present value of quoted market prices of comparable contracts. The commodity price contracts exclude those to be settled by the delivery of product. The differences between the fair values and carrying amounts are equal to the cumulative unrecognized gains or losses on these contracts, which will be recognized when the related transactions occur as described above.

Other long-term obligation: Fair values are estimated using discounted cash flow analysis based on current incremental borrowing rates for similar borrowing arrangements.

Commitments and Contingent Liabilities

Gulf has lease commitments relating to office buildings. The estimated annual minimum operating lease rental payments for the buildings, before deducting sublease income, will be $40 million in 2001, $36 million in 2002, $23 million in 2003, $20 million in 2004, $17 million in 2005 and $63 million in 2006 – 2009, the remaining term of the leases. Lease rentals payable in foreign currencies have been converted to Canadian dollars using December 31, 2000 rates.

As part of Gulf's upstream operations and as a result of certain discontinued downstream operations, Gulf has ongoing site restoration and remediation responsibilities. Site restoration costs within upstream operations involve the surface clean-up and reclamation of wellsites and field production facilities to ensure that they can be safely returned to appropriate alternative land uses. In addition, over the long term, certain plant facilities will require decommissioning which will involve dismantling of facilities as well as the decontamination and reclamation of these lands. Total anticipated future costs (including plugging and abandoning of wells), given Gulf's current inventory of wells and facilities including Syncrude, are in the order of $687 million over the next 20 years. Gulf has accrued $198 million ($11 million as current) for future upstream site restoration costs and continues to accrue these costs on the basis described in the summary of significant accounting policies.

Environmental liabilities relating to discontinued downstream operations generally involve the decontamination and/or remediation of formerly owned service stations, bulk fuel facilities and refinery sites. These future obligations are difficult to estimate as the number of sites that will need reclaiming, their degree of contamination, the cleanup standards, future regulatory requirements and other potentially responsible parties are all unknown. Gulf has accrued approximately $8 million ($3 million as current) for future downstream remediation costs. Based on current information it is not possible to reasonably estimate Gulf's total potential future liability for discontinued downstream operations.

Gulf is involved in various litigation, regulatory and other environmental matters in the ordinary course of business. In management's opinion, an adverse resolution of these matters would not have a material impact on operations or financial position.

To reduce Gulf's exposure to fluctuations in electricity prices, Gulf has entered into fixed electricity pricing agreements as described in Note 19(a)(ii). Under the terms of the agreement, Gulf has annual purchase commitments of $35 million in 2001, $12 million in 2002 and $13 million in 2003.

Employee Future Benefits

The Company maintains both a defined contribution and a number of defined benefit pension plans of different types. These plans cover substantially all employees, providing pension, other retirement and post-retirement benefits.

Pension benefit plans

Defined benefit pensions at retirement are related to years of service and remuneration during the last years of employment. Funds are deposited with a trustee over periods permitted by regulatory authorities. These funds are invested primarily in publicly traded fixed income and equity securities. Actuarial reports are prepared annually by independent actuaries for accounting and funding purposes.

For the years 1998 to 2000, assumed future rates of return on assets, net of administrative expenses, discount rates used to estimate accrued benefit obligations of the plan and long-term average salary and wage escalation rates were as follows:

Rates established at the beginning of the year	[illegible]	1999	1998
Assumed weighted average discount rate on liabilities	**6.55%**	5.75%	6.25%
Assumed weighted average rate of return on assets	**6.55%**	5.75%	6.25%
Estimated average wage and salary escalation rate	**3.00%**	2.50%	3.00%

At December 31, 2000, the estimated accrued benefit obligations of the plans were determined using a weighted average discount rate of 5.81 per cent and the assumed future rate of return on assets of the plan, net of administration expenses, was decreased to 5.79 per cent. Additionally, long-term salary and wage escalation rates averaging 3.00 per cent were incorporated in the calculations.

For the years 1998 to 2000, the estimated remaining service life for the various benefit plans are as follows:

Estimated remaining service life (years)	[illegible]	1999	1998
Retirement Income Plan (RIP) (a)	**0**	13	13
Registered Compensation Arrangement (RCA)	**10**	13	13
Supplemental Executive Retirement Plan (SERP) (b)	**13**	N/A	N/A
Registered Pension Plan (RPP) (c)	**6**	N/A	N/A
Supplemental Executive Retirement Plan (SERP) (c)(d)	**0**	N/A	N/A

(a) The Company's intentions are to settle the remaining pension obligations with the purchase of insured annuities within the next calendar year.

(b) The SERP was implemented in fiscal 2000.

(c) The RPP and SERP were inherited with the acquisition of Crestar Energy Inc. ("Crestar"). The plans pertain to those employees previously employed by Crestar.

(d) No remaining service life exists, all members of the plan have retired.

The actuarial fair values of accrued benefit obligations and plan assets are as follows:

Year ended December 31	[illegible]	1999
Change in benefit obligations		
Accrued benefit obligations at beginning of year	**$ 197**	$ 333
Effect of CICA 3461 adoption as at January 1, 1999 (Note 1)	**0**	(7)
Current service cost	**0**	1
Interest cost	**9**	18
Benefits paid	**(17)**	(34)
Transfer to another company's pension plan	**(8)**	0
Plan amendments	**1**	0
Settlement of benefits (i.e. annuitization)	**(106)**	(98)
Plan conversion	**(4)**	0
Actuarial loss (gain)	**13**	(16)
Acquisitions	**3**	0
Accrued benefit obligations at end of year	**$ 88**	$ 197
Change in plan assets		
Market value of assets at beginning of year	**$ 185**	$ 303
Actual return on plan assets	**20**	3
Company contributions	**4**	13
Benefits paid (a)	**(17)**	(36)
Transfer to another company's pension plan	**(8)**	0
Settlement of benefits (i.e. annuitization)	**(106)**	(98)
Plan conversion	**(3)**	0
Acquisitions	**2**	0
Market value of assets at end of year	**$ 77**	$ 185

(a) Includes $1.4 million benefits payable as at December 31, 2000 (1999 – $2 million).

Included in the above accrued benefit obligation and fair value of plan assets at year-end are the following amounts in respect of the defined benefit plan that are not fully funded:

Year ended December 31		2000		1999		1998
Deferred pension cost						
Market value of assets (a)(b)	$	77	$	185	$	303
Accrued benefit obligation		88		197		333
Deficiency of pension plan assets over accrued benefit obligations		(11)		(12)		(30)
Unrecognized net losses		1		1		30
Accrued pension liability	$	(10)	$	(11)	$	0

(a) Gulf uses the market value method of asset valuation, rather than the smoothed method of adjusting asset values to market over a period of five years.

(b) At December 31, 2000, the plan held 741,600 ordinary shares of Gulf valued at $5.7 million.

In December 1997, the Company started a program of annuitizing the plan's pension obligations with major life insurance companies. The program is being implemented on a phased basis and will be continued during 2001. Pension obligations of $52 million, $98 million and $106 million were settled in 1998, 1999 and 2000, respectively. The amounts and timing of phases are at the Company's discretion and will depend on market conditions.

Both the rate of return on a portion of plan assets and the discount rate for plan obligations are related to market interest rates and therefore both the value of assets and benefit obligations are affected by changes in such rates. At December 31, 2000, approximately 70 per cent of the plan's assets consisted of fixed income securities with an average maturity of about 12 years, which approximates the term and interest rate exposure of the obligations.

In 1993, the Company's pension plan was amended to give Gulf's active Canadian employees the option to accrue future benefits under a defined contribution alternative. All new employees accrue future benefits on a defined contribution basis. At December 31, 2000, 96 per cent of employees were members within the defined contribution option.

During 1999 the Company settled and wound up all benefit obligations for the employees of Clyde Petroleum Limited by purchasing insured annuities with major United Kingdom life insurance companies. The market value of assets and accrued benefit obligations of that plan were £13 million and £9 million, respectively, at January 1, 1999.

Additionally, the Company has a 9.03 per cent interest in the defined benefit pension plan of the Syncrude Project. At December 31, 2000, Gulf's proportionate share of the market value of assets and accrued benefit obligations of that plan were $54 million and $62 million, respectively (1999 – $53 million and $43 million, respectively). In addition, the plan has an unrecognized net actuarial loss of $82 million and a gain of $150 million for the years ending December 31, 2000 and 1999, respectively. Gulf's proportionate share of the accrued pension liability was nil at December 31, 2000 (1999 – $3 million).

Pension expense

The Company's net pension expense for both the defined benefit and the defined contribution components of the plan is as follows:

Year ended December 31		2000		1999		1998
Net pension expense						
Current service cost	$	0	$	1	$	1
Interest costs on accrued benefit obligations		9		18		22
Estimated return on plan assets		(8)		(17)		(22)
Amortization of net transition (asset) obligation		1		0		0
Amortization of experience losses		0		0		2
Defined benefit expense before settlement		2		2		3
Settlement (gain) cost		0		(1)		6
Total defined benefit expense		2		1		9
Total defined contribution expense		3		3		3
Total pension expense	$	5	$	4	$	12

Post-retirement benefits other than pensions

The company is obligated to provide post retirement benefits other than pensions to all regular employees who have retired on or before April 1, 1996. The cost of this plan is funded annually out of general revenues and includes such benefits as life insurance, dental coverage, supplementary health benefits and the subsidy of certain provincial health care premiums.

Year ended December 31		1999
Change in benefit obligations		
Benefit obligations at beginning of year	**$ 53**	$ 56
Interest cost	**3**	3
Benefits paid	**(4)**	(4)
Actuarial gain	**(1)**	(2)
Benefit obligations at end of year	**$ 51**	$ 53
Deferred benefit cost		
Benefit obligations (a)	**$ 51**	$ 53
Market value of assets	**0**	0
Deficiency of pension plan assets over accrued benefit obligations	**(51)**	(53)
Unrecognized net losses	**(3)**	(2)
Deferred benefit cost	**$ (54)**	$ (55)

Year ended December 31		1999	1998
Net periodic cost			
Interest costs on accrued benefit obligations	**$ 3**	$ 3	$ 3
Other, net	**0**	0	1
Net periodic cost	**$ 3**	$ 3	$ 4

(a) The health care cost trend rate is estimated to decrease from 8.5 per cent in 1998 to 7.0 per cent for the years 1999, 2000 and thereafter. The discount rates used to value post-retirement benefits other than pensions are the same as those used to value Gulf's pension obligations.

A one per cent change in the assumed health care cost trend rate would have the following effects on 2000 service and interest cost, and the benefit obligation at December 31, 2000:

Effect on service and interest components of net periodic cost	$ 0	$ 0
Effect on benefit obligation	2	(2)

Additionally, the company has a 9.03 per cent interest in the other post-retirement benefits of the Syncrude Project. At December 31, 2000, Gulf's proportionate share of the market value of assets and accumulated benefit obligations were nil and $6 million, respectively (1999 – nil and $1 million, respectively).

Related Party Transactions

Gulf holds all of the Preferred Shares of Athabasca Oil Sands Investments Inc. ("Athabasca"), entitling Gulf to elect two of the directors of Athabasca. Gulf earns dividends on these Preferred Shares on a quarterly basis for a total of $360,000 in 2000 (1999 – $360,000; 1998 – $360,000). In addition, Gulf has agreements with Athabasca for the provision of administrative and marketing services. Revenue from such services was $4 million in 2000, $3 million in 1999 and $2 million in 1998. Gulf has $1 million receivable from Athabasca as at December 31, 2000 (1999 – $1 million).

Effective January 1, 1998, Gulf acquired a 50 per cent interest and joint control of Tidal Energy Marketing Inc. ("Tidal"). Gulf paid $1 million in 2000 (1999 – $1 million; 1998 – $2 million) to the unrelated interest in Tidal pursuant to an agreement to provide marketing services. Gulf has no receivable from the unrelated interest in Tidal as at December 31, 2000 (1999 – $6 million).

Effective September 1, 2000 Gulf sold its remaining 50 per cent interest in Gulf Midstream Services Partnership and GMS Facilities Ltd. (collectively "GMS") to an unrelated investor. For the first eight months of 2000, Gulf paid $12 million (1999 – $18 million) to the unrelated interest in GMS pursuant to agreements to provide marketing services and processing fees at the GMS owned facilities. At December 31, 2000, the outstanding note receivable from GMS was settled (1999 – $7 million).

All related party transactions are in the normal course of operations and are measured at the exchange amount, being the fair market value of the consideration established and agreed upon by the related parties.

Segment Information

	North America								
	Oil & Gas[1]			Syncrude			Petrovera		
Year ended December 31		1999	1998		1999	1998		1999	1998
Revenues[3]									
Gross oil and gas revenues									
Crude oil									
Unhedged	**$ 503**	$ 272	$ 297	**$ 304**	$ 201	$ 139	**$ 161**	$ 78	$ 0
Hedging	**0**	0	0	**0**	0	0	**0**	0	0
Natural gas liquids	**72**	76	86	**0**	0	0	**0**	0	0
Natural gas									
Unhedged	**616**	306	268	**0**	0	0	**20**	7	0
Hedging	**0**	0	0	**0**	0	0	**0**	0	0
Sulphur	**(1)**	(1)	1	**0**	0	0	0	0	0
	1,190	653	652	**304**	201	139	**181**	85	0
Less royalties	**(245)**	(103)	(89)	**(52)**	(4)	0	**(21)**	(12)	0
Net oil and gas revenues	**945**	550	563	**252**	197	139	**160**	73	0
Other revenues	**14**	26	30	**0**	0	1	**0**	0	0
	959	576	593	**252**	197	140	**160**	73	0
Expenses									
Operating									
Production	**(153)**	(147)	(222)	**(120)**	(94)	(95)	**(51)**	(29)	0
Other	**(6)**	(18)	(23)	**0**	0	0	**0**	0	0
Exploration	**(43)**	(31)	(103)	**0**	0	0	**(1)**	(1)	0
Depreciation, depletion and amortization	**(282)**	(224)	(552)	**(18)**	(17)	(18)	**(125)**	(42)	0
	(484)	(420)	(900)	**(138)**	(111)	(113)	**(177)**	(72)	0
	$ 475	$ 156	$ (307)	**$ 114**	$ 86	$ 27	**$ (17)**	$ 1	$ 0

(1) Included in the North America oil and gas segment is the following information pertaining to the United States:

		1999	1998
Net oil and gas revenues	**$ 1**	$ 0	$ 0
Depreciation, depletion and amortization	**(32)**	(1)	(1)
Net operating loss	**(32)**	(1)	(21)

(2) Other North America includes pipelines, contract drilling, hedging and other.

(3) There were no revenues derived from sales to significant customers in the year ended December 31, 2000 (1999 – $132 million; 1998 – $121 million).

There were no inter-segment transfers of product.

Included in earnings (loss) from continuing operations are export sales of $203 million, $174 million and $168 million in 2000, 1999 and 1998, respectively.

North America			International									Total		
Other[2]			Indonesia			Netherlands			Other					
	1999	1998		1999	1998		1999	1998		1999	1998		1999	1998
$ 0	$ 0	$ 0	$ 290	$ 189	$ 131	$ 37	$ 30	$ 13	$ 6	$ 26	$ 81	$1,301	$ 796	$ 661
(155)	(95)	55	(4)	(5)	0	0	0	0	0	0	0	(159)	(100)	55
0	0	0	0	3	5	0	0	0	2	7	9	74	86	100
0	0	0	339	178	12	61	54	82	0	13	19	1,036	558	381
(44)	(17)	3	0	0	0	0	0	0	0	0	0	(44)	(17)	3
0	0	0	0	0	0	0	0	0	0	0	0	(1)	(1)	1
(199)	(112)	58	625	365	148	98	84	95	8	46	109	2,207	1,322	1,201
0	0	0	(113)	(63)	(26)	(1)	(1)	(2)	(1)	1	(8)	(433)	(182)	(125)
(199)	(112)	58	512	302	122	97	83	93	7	47	101	1,774	1,140	1,076
9	17	80	1	2	0	0	0	5	0	0	3	24	45	119
(190)	(95)	138	513	304	122	97	83	98	7	47	104	1,798	1,185	1,195
0	0	0	(49)	(53)	(41)	(21)	(24)	(25)	(3)	(16)	(34)	(397)	(363)	(417)
(8)	(9)	(67)	0	0	0	0	0	0	0	0	0	(14)	(27)	(90)
0	0	0	(27)	(17)	(50)	(10)	(16)	(10)	(4)	(1)	(28)	(85)	(66)	(191)
(4)	(3)	(1)	(103)	(103)	(71)	(38)	(45)	(62)	(9)	(17)	(65)	(579)	(451)	(769)
(12)	(12)	(68)	(179)	(173)	(162)	(69)	(85)	(97)	(16)	(34)	(127)	(1,075)	(907)	(1,467)
$ (202)	$ (107)	$ 70	$ 334	$ 131	$ (40)	$ 28	$ (2)	$ 1	$ (9)	$ 13	$ (23)	723	278	(272)

				1999	1998
Net gain (loss) on asset disposals and provision for other losses			86	(129)	(252)
Pension settlement and restructuring charges			(4)	(5)	(45)
General and administration			(45)	(34)	(62)
Finance charges, net			(277)	(246)	(278)
Income tax (expense) recovery			(300)	(23)	325
Minority interest			(35)	(13)	12
Earnings (loss) from continuing operations			148	(172)	(572)
Discontinued operations			0	0	24
Earnings (loss) for the year			$ 148	$ (172)	$ (548)
Identifiable assets	North America	Oil & Gas	$5,814	$2,946	$3,705
		Syncrude	477	429	363
		Petrovera	442	337	0
	Indonesia		1,587	1,236	1,313
	Netherlands		486	484	509
	Other International		125	3	426
			$8,931	$5,435	$6,316
Capital and exploration expenditures	North America	Oil & Gas	$ 291	$ 151	$ 374
		Syncrude	45	68	43
		Petrovera	65	20	0
	Indonesia		126	97	284
	Netherlands		60	44	51
	Other International		9	15	91
	Corporate & Other		4	5	7
			$ 600	$ 400	$ 850

United States Accounting Principles and U.S. Dollar Summary Information

If United States generally accepted accounting principles (U.S. GAAP) had been followed, the earnings (loss) and earnings (loss) per ordinary share would have been as follows:

Year ended December 31		1999	1998
Earnings (loss) from continuing operations, as reported	**$ 148**	$ (172)	$ (572)
Adjustments			
New asset values (a1)	**0**	0	(106)
Interest rate swap (b)	**0**	(24)	(9)
Foreign exchange (losses) gains (c)	**(3)**	148	(67)
Termination benefits (d)	**0**	(19)	12
Pension and other post-retirement benefits (e)	**(22)**	(3)	1
Asset impairments (f)	**(32)**	19	(123)
Net loss on asset disposals (g)	**0**	(19)	19
Income tax recovery (expense)	**14**	(45)	182
Earnings (loss) from continuing operations, as adjusted	**105**	(115)	(663)
Discontinued operations	**0**	0	24
Adjustment			
Cumulative effect of accounting change (a2)	**0**	(95)	0
Earnings (loss), as adjusted	**105**	(210)	(639)
Other comprehensive income			
Foreign currency translation adjustments	**18**	(117)	105
less reclassification related to sale of foreign entity (h)	**0**	0	(21)
Unrealized holding loss on equity securities	**0**	0	(19)
less reclassification to earnings (g)	**0**	19	0
Minimum pension liability adjustments (e)	**0**	16	(8)
Income tax (expense) benefit related to items of other comprehensive income (loss):			
Foreign currency translation adjustments (h)	**(8)**	28	(12)
Unrealized holding loss on equity securities	**0**	0	7
less reclassification to earnings (g)	**0**	(7)	0
Minimum pension liability adjustments (e)	**0**	(7)	3
Comprehensive income (loss)	**$ 115**	$ (278)	$ (584)
Cumulative dividends on senior preference shares	**(34)**	(30)	(31)
Earnings (loss) available to ordinary shareholders	**$ 71**	$ (240)	$ (670)
Basic earnings (loss) per ordinary share, as adjusted (dollars)			
Earnings (loss) from continuing operations	**$ 0.19**	$ (0.42)	$ (1.99)
Discontinued operations	**0.00**	0.00	0.07
Cumulative effect of accounting change	**0.00**	(0.27)	0.00
Earnings (loss)	**$ 0.19**	$ (0.69)	$ (1.92)
Pro forma earnings (loss) reflecting accounting change (a2)			$ (634)
Per ordinary share (dollars)			$ (1.91)

If U.S. GAAP had been followed, cash generated from continuing operations would be adjusted as follows.

Year ended December 31			1999		1998
Cash generated from continuing operations, as reported	$	**1,095**	$ 517	$	371
Adjustment for termination benefits (d)		**0**	(19)		12
Cash generated from continuing operations, as adjusted	$	**1,095**	$ 498	$	383

If U.S. GAAP had been followed, the Consolidated Statements of Cash Flows would be adjusted as follows:

Year ended December 31			1999		1998
Adjustments					
Operating activities (i)	$	**(43)**	$ (29)	$	(109)
Investing activities (i)		**43**	29		109

The Consolidated Statements of Cash Flows presented under Canadian GAAP comply in other respects with International Accounting Standard 7.

If U.S. GAAP were followed, amounts on the Consolidated Statements of Financial Position would be adjusted as follows:

December 31				1999
Assets				
Accounts receivable (b)	$	**0**	$	4
Investments, deferred charges and other assets (b)(c)(e)		**(60)**		152
Property, plant and equipment (f)		**(136)**		(104)
	$	**(196)**	$	52
Liabilities and shareholders' equity				
Other current liabilities (b)	$	**0**	$	4
Long-term debt (b)		**0**		200
Other long-term liabilities (e)		**(10)**		(22)
Future income taxes		**(62)**		(48)
Retained earnings (deficit)		**(124)**		(82)
Foreign currency translation adjustment (h)		**10**		20
Accumulated other comprehensive income (h)		**(10)**		(20)
	$	**(196)**	$	52

The financial statements have been prepared in accordance with accounting principles generally accepted in Canada which, in the case of Gulf, conform in all material respects with those in the United States except that:

(a) Prior to January 1, 1999 the financial statements reflect the following effects of adopting Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes" (SFAS 109). Effective January 1, 1999 such differences have been eliminated (see note (a) 2 below).

1. SFAS 109 requires a restatement, to pre-tax amounts, of the new asset values reflected in the accounts in connection with the change of control in 1986 of Gulf Canada Limited and the acquisition of new subsidiaries. This restatement, along with differences between the tax bases and recorded amounts of other asset transfers, resulted in higher amounts of property, plant and equipment (PP&E) and deferred income taxes than under Canadian generally accepted accounting principles ("Canadian GAAP") before 1999. These differences were amortized to earnings over the lives of the related assets, resulting in higher pre-tax expenses in 1998.

2. Effective January 1, 1999 Gulf adopted Canadian standards for accounting for income taxes substantially identical to those of SFAS 109. The method and assumptions used to apply the new standards in the Canadian GAAP financial statements, however, differ in some respects from those applied to SFAS 109. This reconciliation to U.S. GAAP reflects application of these standards consistent with the Canadian GAAP financial statements prospectively from January 1, 1999. The cumulative effect of this change on retained earnings under U.S. GAAP is included in the loss for the year ended December 31, 1999. The effect of this change in 1999 is to increase the loss from continuing operations by $1 million. Under Canadian GAAP, prior periods are restated to reflect a change in accounting principle. The reconciling amounts to U.S. GAAP for 1998 have been restated accordingly.

(b) A special purpose entity had $200 million 11 per cent public debentures issued and outstanding and assets consisting of a $200 million oil indexed debenture and an interest rate swap, all of which matured on October 31, 2000. These are not included in Gulf's December 31, 1999 statement of financial position, but under U.S. GAAP would have been included in long-term debt and investments and other assets, respectively. Earnings would exclude amortization of a provision for losses on a related swap agreement.

(c) Unrealized gains or losses arising on translation of long-term liabilities repayable in foreign funds would be included in earnings in the period in which they arise. The balances of such deferred losses were $60 million at December 31, 2000 and $58 million at December 31, 1999.

(d) A liability for non-contractual involuntary employee termination benefits would not be recognized until their terms are communicated to the affected employees. Under Canadian GAAP, the liability is recorded when the company makes the termination decision. Accordingly, the liability recorded prior to employees being notified is reversed and recognized in the year of notification for U.S. GAAP.

(e) Effective January 1, 1999 Gulf adopted new Canadian standards for accounting for pensions and other post-employment benefits to employees. The accrued net liabilities exceeded those under U.S. GAAP by $10 million at December 31, 2000 and by $32 million at December 31, 1999.

(f) U.S. GAAP requires that impaired assets be written down to fair value, rather than undiscounted future cash flows from use. Accordingly, Gulf would have recognized additional impairment losses of $46 million in 2000 and $123 million in 1998. Depreciation. depletion and amortization expense would be lower by $14 million in 2000 and $19 million in 1999.

(g) An unrealized holding loss on equity securities of $19 million recognized in 1998 would be reported in other comprehensive income rather than earnings. This loss was realized in 1999 and would accordingly be reclassified to net income.

(h) Foreign currency translation adjustments arising upon consolidation of self-sustaining foreign subsidiaries are included in other comprehensive income.

(i) The cash flows of certain exploration costs included in capital expenditures and exploration expenses would be classified as operating rather than investing activities.

Summary financial information in U.S. dollars

The following information is based on U.S. GAAP and translated from Canadian into U.S. dollars at the average exchange rates for each of the years presented.

Year ended December 31		1999	1998
Net revenues from continuing operations	**US$ 1,210**	US$ 797	US$ 801
Cash generated from continuing operations	**737**	335	257
Earnings (loss) from continuing operations	**71**	(77)	(444)
Earnings (loss) for the year	**71**	(141)	(428)
Per ordinary share (dollars)			
Earnings (loss) from continuing operations	**US$ 0.13**	US$ (0.28)	US$ (1.33)
Earnings (loss)	**0.13**	(0.46)	(1.29)
Average exchange rate (Cdn$1)	**0.67**	0.67	0.67

Components of accumulated other comprehensive income

December 31		1999
Foreign currency translation adjustments	**$ (10)**	$ (20)

Gross revenues

U.S. GAAP requires revenues to be reported gross, excluding certain product purchase, transportation and marketing costs included in net oil and gas revenues:

Year ended December 31		1999	1998
Gross oil and gas revenues	**$ 3,309**	$ 2,158	$ 2,227
Cost of sales	**(1,535)**	(1,018)	(1,151)
Net oil and gas revenues	**$ 1,774**	$ 1,140	$ 1,076

Interest paid and income taxes paid

Year ended December 31			1999		1998
Cash interest expense paid (net of amounts capitalized)	**$**	**231**	$ 266	$	213

Stock-based compensation plans

Pro forma disclosures of earnings and earnings per share are presented below as if Gulf had adopted the cost recognition requirements under FASB Statement No. 123. Pro forma disclosures are not likely to be representative of the effects on reported earnings for future years.

Year ended December 31					1999		1998
Earnings (loss), U.S. GAAP	As reported	**$**	**105**	$	(210)	$	(639)
	Pro forma		**92**		(225)		(664)
Earnings (loss) per share	As reported	**$**	**0.19**	$	(0.69)	$	(1.92)
	Pro forma		**0.15**		(0.73)		(2.00)

The fair value of the options on the grant date is estimated using the Black-Scholes option pricing model with the following assumptions:

		Gulf			Gulf Indonesia	
Year Granted		1999	1998		1999	1998
Expected volatility	**50%**	50%	42%	**50%**	55%	42%
Risk-free interest rate	**5.25%**	6.5%	5.4%	**5.1%**	6.5%	5.0%
Expected life (years)	**5.4**	4.7	4.1	**3.0**	3.0	3.0

Financial instruments with off-balance sheet risk

The Canadian GAAP financial statements do not include the assets and liabilities of a special purpose entity that matured on October 31, 2000. The carrying amounts and fair values of these financial instruments at December 31, 1999 were as follows:

	Asset (liability)	
	Carrying Amount	Fair Value
Oil indexed debenture and related swap	$ 200	$ 207
11% debentures	$ (200)	$ (207)

The following methods and assumptions were used in estimating the fair values of these financial instruments:

Oil indexed debenture: Fair values are estimated using discounted cash flow analysis based on the applicable current incremental borrowing rate. Income on the variable rate portion of interest is estimated based on a forecast of the average quarterly price of West Texas Intermediate crude oil.

11 per cent debentures: Fair values are estimated using discounted cash flow analysis based on current incremental borrowing rates for similar borrowing arrangements.

Interest rate swap: Fair values are estimated based on quoted market prices of comparable contracts.

Foreign currency transactions

The aggregate foreign currency transaction gains and losses included in net income are a loss of $98 million in 2000, a gain of $96 million in 1999, and a loss of $164 million in 1998.

Proportionately consolidated joint ventures

Following is summarized financial information relating to Gulf's pro rata interest in significant joint ventures that are proportionately consolidated in its financial statements.

December 31		1999
Current assets	**$ 136**	$ 129
Non-current assets	**830**	792
Current liabilities	**88**	96
Non-current liabilities	**49**	158

Year ended December 31		1999	1998
Net revenues	**$ 429**	$ 297	$ 142
Operating expenses	**177**	131	96
Earnings for the year	**178**	100	23
Cash flow from (to):			
Operating activities	**136**	149	22
Investing activities	**(118)**	(101)	(43)
Financing activities	**0**	7	0

New statements of financial accounting standards

In June 1998, Statement of Financial Accounting Standards (SFAS) No. 133, Accounting for Derivative Instruments and Hedging Activities, was issued, amended by SFAS 137 (June 1999) and SFAS 138 (June 2000). Adoption of this standard is required in the first quarter of 2001. SFAS 133 requires that all derivatives (as defined in the statement) be recognized as either assets or liabilities and measured at their fair values. If certain conditions are met, a derivative may be specifically designated and accounted for as a hedge of risk exposure. Gulf has not designated any of the derivatives it held at December 31, 2000 as hedges in accordance with the requirements of SFAS 133. The adoption of these standards will result in the initial recognition, for U.S. GAAP, of $10 million of assets, $118 million of liabilities, and a cumulative reduction in retained earnings of $60 million. Certain contracts containing forward pricing provisions are excluded from the scope of this statement because they are sales in the normal course of business. The volume of sales subject to such contracts is less than five per cent of Gulf's expected related production over their term.

SFAS 140 was issued September 29, 2000. This Statement revises accounting and disclosure standards for transfers and servicing of financial assets and extinguishments of liabilities. It is effective for transfers after March 31, 2001 and for disclosures about securitizations and collateral, and for recognition and reclassification of collateral for fiscal years ending after December 15, 2000. Gulf has complied with the disclosure requirements and expects the accounting standards to have no effect on its financial statements.

Reclassifications

Certain comparative figures have been reclassified to conform to the presentation used in 2000.

Subsequent Event

On January 10, 2001 Gulf issued US$300 million ten-year Senior Notes at an interest rate of 7.125 per cent. The notes are unsecured with interest paid semi-annually. The proceeds were primarily used to redeem the 9.25 per cent Senior Subordinated Debentures due in 2004. The reduction in interest will result in a savings of approximately $9 million per year.

Five-Year Financial Summary

Year ended December 31 (millions of dollars, except per share amounts)		1999	1998	1997	1996
Statements of Earnings (Loss)					
Revenues					
Net oil and gas	**$ 1,774**	$ 1,140	$ 1,076	$ 1,257	$ 855
Gain on Gulf Indonesia Resources Limited share offering	**0**	0	0	417	0
Other	**24**	45	119	71	40
	$ 1,798	$ 1,185	$ 1,195	$ 1,745	$ 895
Earnings (loss):					
From continuing operations	**$ 148**	$ (172)	$ (572)	$ 169	$ 29
Total	**$ 148**	$ (172)	$ (548)	$ 169	$ 27
Earnings (loss) per ordinary share:					
From continuing operations	**$ 0.30**	$ (0.58)	$ (1.73)	$ 0.50	$ 0.00
Total	**$ 0.30**	$ (0.58)	$ (1.66)	$ 0.50	$ (0.01)
Dividends declared:					
Per ordinary share	**NIL**	NIL	NIL	NIL	NIL
Per Series 1 preference share (1)	**$ 0.29**	$ 0.26	$ 0.27	$ 0.58	$ 0.36
Statements of Cash Flows					
Operating activities					
Cash generated from continuing operations	**$ 1,095**	$ 517	$ 371	$ 592	$ 440
Other operating activities, net	**29**	(15)	(18)	29	(68)
	1,124	502	353	621	372
Investing activities	**(660)**	(351)	215	(1,936)	(743)
Financing activities (2)	**(392)**	(335)	(411)	1,450	410
Increase (decrease) in cash	**$ 72**	$ (184)	$ 157	$ 135	$ 39

December 31		1999	1998	1997	1996
Statements of Financial Position					
Total assets	**$ 8,931**	$ 5,435	$ 6,316	$ 7,496	$ 3,833
Current liabilities	**(801)**	(583)	(789)	(666)	(620)
Capital employed	**8,130**	4,852	5,527	6,830	3,213
Long-term debt	**2,392**	2,077	2,331	2,785	1,198
Other long-term liabilities	**330**	380	336	201	140
Future income taxes	**2,153**	625	777	1,271	568
Minority interest	**246**	204	178	220	0
Shareholders' equity (3)	**$ 3,009**	$ 1,566	$ 1,905	$ 2,353	$ 1,307

(1) 1997 includes payment of regular and special dividends on preference shares.

(2) Includes the payment of dividends on the preference shares.

(3) Includes Series 1 preference shares of $428 million and Series 2 preference shares of $149 million in each of 1996 through 2000.

Quarterly Summaries (unaudited)

(millions of dollars)	[illegible]	[illegible]	[illegible]	[illegible]
Financial				
Net revenue from continuing operations	343	398	421	636
Earnings (loss) from continuing operations	5	43	43	57
Per ordinary share (dollars)	(0.01)	0.10	0.10	0.10
Earnings (loss)	5	43	43	57
Per ordinary share (dollars)	(0.01)	0.10	0.10	0.10
Cash generated from continuing operations	190	233	264	408
Per ordinary share (dollars)	0.52	0.64	0.72	0.85
Market value per share				
Toronto Stock Exchange				
Ordinary				
High	5.50	7.75	8.95	7.70
Low	4.50	5.50	5.80	6.50
Close	5.35	6.90	7.95	7.65
Preference (Series 1)				
High	3.05	3.39	3.55	3.55
Low	2.80	2.90	3.21	3.35
Close	2.85	3.25	3.40	3.47
New York Stock Exchange (US$)				
Ordinary				
High	3.813	5.250	6.000	5.063
Low	3.125	3.750	4.125	4.125
Close	3.688	4.813	5.375	5.063
Preference (Series 1)				
High	2.125	2.313	2.500	2.438
Low	1.875	1.938	2.125	2.125
Close	1.938	2.125	2.188	2.250
Dividends				
Dividends declared (millions of dollars) [1]				
Ordinary	0	0	0	0
Preference (Series 1)	6	6	7	7
Preference (Series 2)	2	2	2	2
Dividends declared per share (dollars) [1]				
Ordinary	0	0	0	0
Preference (Series 1)	0.07	0.07	0.08	0.08

(1) Dividends paid on shares owned by non-residents of Canada are generally subject to 25 per cent withholding tax. However, for recipients to whom the existing tax treaty between the United States and Canada is applicable, the rate is 15 per cent.

Quarterly Summaries (unaudited)

(millions of dollars)	1999 1	2	3	4
Financial				
Net revenue from continuing operations	244	295	334	312
Earnings (loss) from continuing operations	(46)	(120)	18	(24)
Per ordinary share (dollars)	(0.16)	(0.36)	0.03	(0.09)
Earnings (loss)	(46)	(120)	18	(24)
Per ordinary share (dollars)	(0.16)	(0.36)	0.03	(0.09)
Cash generated from continuing operations	75	127	175	140
Per ordinary share (dollars)	0.19	0.35	0.48	0.37
Market value per share				
Toronto Stock Exchange				
Ordinary				
High	5.15	6.25	7.05	6.05
Low	3.35	4.07	5.80	4.67
Close	4.06	6.10	6.05	4.75
Preference (Series 1)				
High	2.88	2.94	3.29	3.19
Low	2.33	2.35	2.86	2.85
Close	2.50	2.85	3.19	3.01
New York Stock Exchange (US$)				
Ordinary				
High	3.375	4.250	4.688	4.125
Low	2.313	2.688	3.875	3.250
Close	2.688	4.188	4.188	3.375
Preference (Series 1)				
High	1.875	2.000	2.250	2.188
Low	1.500	1.625	1.875	1.938
Close	1.688	1.875	2.188	2.125
Dividends				
Dividends declared (millions of dollars) (1)				
Ordinary	0	0	0	0
Preference (Series 1)	6	5	6	5
Preference (Series 2)	2	2	2	2
Dividends declared per share (dollars) (1)				
Ordinary	0	0	0	0
Preference (Series 1)	0.07	0.06	0.06	0.07

(1) Dividends paid on shares owned by non-residents of Canada are generally subject to 25 per cent withholding tax. However, for recipients to whom the existing tax treaty between the United States and Canada is applicable, the rate is 15 per cent.

Five-Year Operating Summary

			[illegible]	1999 (gross/net)	1998 (gross/net)	1997 (gross/net)	1996 (gross/net)
Volumes Sold(1)							
Crude oil and natural gas liquids							
(thousands of barrels per day)							
North America	Conventional light crude oil		**25.2/ 20.6**	26.0/ 21.8	35.8/ 30.5	43.0/ 35.3	39.0/ 31.4
	Conventional heavy crude oil(2)		**20.8/ 18.0**	14.8/ 12.7	17.0/ 15.4	5.4/ 4.7	0.0/ 0.0
	Syncrude		**18.8/ 15.5**	19.9/ 19.5	18.9/ 18.9	18.6/ 16.9	18.2/ 15.0
	Condensate		**4.2/ 3.1**	4.7 / 3.5	5.6/ 4.1	5.7/ 4.0	5.6/ 4.6
	Other natural gas liquids		**7.2/ 5.7**	6.8/ 5.2	11.0/ 8.7	10.7/ 9.1	10.5/ 8.6
			76.2/ 62.9	72.2/ 62.7	88.3/ 77.6	83.4/ 70.0	73.3/ 59.6
International	Indonesia		**18.9/ 13.2**	20.8/ 16.0	20.5 / 16.9	22.5/ 16.6	13.9/ 10.3
	United Kingdom		**0.0/ 0.0**	0.0/ 0.0	7.2/ 6.8	17.0 / 16.2	0.0/ 0.0
	Netherlands		**2.9/ 2.9**	4.1/ 4.1	2.6/ 2.6	0.2/ 0.2	0.0/ 0.0
	Other international		**0.7/ 0.6**	4.0/ 4.0	6.1/ 5.5	1.8/ 15	0.0/ 0.0
			22.5/ 16.7	28.9/ 24.1	36.4/ 31.8	41.5/ 34.5	13.9/ 10.3
	Total liquids		**98.7/ 79.6**	101.1/ 86.8	124.7/109.4	124.9/104.5	87.2/ 69.9
Natural gas							
(millions of cubic feet per day)							
	North America		**337 /253**	325 /276	369 /311	413 /351	441 /371
	Indonesia		**166 /159**	161 /154	20 / 19	0 / 0	0 / 0
	Netherlands		**39 / 39**	53 / 53	63 / 61	62 / 61	0 / 0
	Other international		**0 / 0**	15 / 15	24 / 23	22 / 21	0 / 0
	Total natural gas		**542 /451**	554 /498	476 /414	497 /433	441 /371
Total barrels of oil equivalent per day			**167 /138**	172 /151	179 /158	180 /153	131 /107
Gross Average Prices							
Crude oil and natural gas liquids							
(dollars per barrel)							
North America	Conventional light crude oil		**43.00**	25.77	18.30	26.13	27.92
	Conventional heavy crude oil		**26.13**	19.54	9.31	13.71	0.00
	Syncrude		**44.26**	27.70	20.20	27.84	29.22
	Condensate		**42.58**	23.89	20.22	28.65	27.58
	Other natural gas liquids		**28.16**	14.23	10.97	17.56	18.01
International	Indonesia		**42.06**	25.37	18.24	26.34	27.07
	United Kingdom		**0.00**	0.00	17.96	23.59	0.00
	Netherlands		**35.01**	20.06	13.07	28.93	0.00
	Other international		**30.19**	22.40	19.85	26.82	0.00
	Average	Unhedged	**38.07**	23.92	16.73	24.94	26.84
		Hedged	**33.67**	21.22	17.94	24.54	25.09
Natural gas							
(dollars per thousand cubic feet)							
	North America	Unhedged	**5.15**	2.64	1.98	1.84	1.73
		Hedged	**4.79**	2.49	2.01	1.82	1.65
	Indonesia		**5.58**	3.03	1.60	0.00	0.00
	Netherlands		**4.31**	2.82	3.33	3.19	0.00
	Other international		**0.00**	2.29	2.14	2.50	0.00
	Average	Unhedged	**5.22**	2.76	2.19	2.08	1.73
		Hedged	**5.00**	2.67	2.21	2.06	1.65
Average Exchange Rates (Cdn$1)			**US$ 0.67**	US$ 0.67	US$ 0.67	US$ 0.72	US$ 0.73

(1) "Gross" sales include royalties; "net" sales are after royalties. Volumes are adjusted for:

– NGL and gas re-injection requirements (mboe/d)	**2.0**	2.3	3.4	4.2	4.2
– inventory drawdown/(buildup) (mboe/d)	**(0.1)**	0.4	0.9	0.0	(0.4)

(2) API Gravity 12° – 27°

Reserves

		1999 (gross/net)	1998 (gross/net)	1997 (gross/net)	1996 (gross/net)
Crude Oil and Natural Gas Liquids (millions of barrels)					
Proved(1)					
North America					
Conventional	**181 / 147**	133 / 107	169 / 140	192 / 157	162 / 131
Heavy Oil (16° – 27° API)	**59 / 49**	5 / 5	65 / 58	78 / 69	0 / 0
Petrovera (12° – 16° API)	**45 / 40**	45 / 39	0 / 0	0 / 0	0 / 0
Syncrude(3)	**324 / 284**	212 / 185	219 / 192	226 / 198	194 / 174
	609 / 520	395 / 336	453 / 390	496 / 424	356 / 305
Indonesia	**33 / 18**	34 / 20	39 / 30	42 / 28	36 / 21
Netherlands	**2 / 2**	2 / 2	3 / 3	0 / 0	0 / 0
Other International	**14 / 11**	0 / 0	12 / 10	61 / 59	0 / 0
	49 / 31	36 / 22	54 / 43	103 / 87	36 / 21
Total Proved Liquids	**658 / 551**	431 / 358	507 / 433	599 / 511	392 / 326
Proved plus probable(2)					
North America					
Conventional	**231 / 188**	178 / 143	227 / 189	247 / 202	215 / 174
Heavy Oil	**94 / 78**	16 / 13	115 / 101	110 / 97	0 / 0
Petrovera	**59 / 53**	63 / 57	0 / 0	0 / 0	0 / 0
Syncrude(3)	**502 / 439**	511 / 447	519 / 454	526 / 460	208 / 188
Other Canada/Frontier	**271 / 229**	271 / 229	271 / 230	270 / 229	270 / 229
	1,157 / 987	1,039 /889	1,132 / 974	1,153 / 988	693 / 591
Indonesia	**61 / 34**	57 / 35	63 / 48	70 / 46	59 / 33
Netherlands	**4 / 4**	4 / 4	6 / 6	79 / 76	0 / 0
Other International	**49 / 39**	0 / 0	19 / 16	8 / 7	0 / 0
	114 / 77	61 / 39	88 / 70	157 / 129	59 / 33
Total Proved plus Probable Liquids	**1,271 /1,064**	1,100 / 928	1,220 / 1,044	1,310 / 1,117	752 / 624
Natural Gas (billions of cubic feet)					
Proved(1)					
North America	**1,795 /1,396**	909 / 804	1,170 / 978	1,347 / 1,147	1,482 / 1,248
Indonesia	**1,668 /1,248**	1,263 / 996	1,053 / 919	758 / 652	504 / 426
Netherlands	**157 / 156**	124 / 122	127 / 124	164 / 161	0 / 0
Other International	**0 / 0**	0 / 0	105 / 92	151 / 133	0 / 0
Total Proved Natural Gas	**3,620 /2,800**	2,296 / 1,922	2,455 / 2,113	2,420 / 2,093	1,986 / 1,674
Proved plus probable(2)					
North America					
Conventional	**2,493 /1,938**	1,257 / 1,111	1,531 / 1,280	1,815 / 1,546	1,948 / 1,640
Other Canada/Frontier	**2,598 /2,300**	2,599 / 2,300	2,599 / 2,286	2,590 / 2,279	2,590 / 2,279
Indonesia	**3,284 /2,424**	2,008 / 1,609	1,650 / 1,442	1,447 / 1,227	1,311 / 1,048
Netherlands	**300 / 297**	251 / 246	218 / 213	272 / 268	0 / 0
Other International	**0 / 0**	0 / 0	127 / 110	172 / 161	0 / 0
Total Proved and Probable Natural Gas	**8,675 /6,959**	6,115 / 5,266	6,125 / 5,331	6,296 / 5,471	5,849 / 4,967
BOE Proved	**1,142 / 925**	753 / 625	838 / 720	913 / 783	624 / 522
Proved Plus Probable Excluding Frontier	**1,847 /1,482**	1,331 / 1,119	1,435 / 1,236	1,537 / 1,317	896 / 734
Total Proved plus Probable	**2,377 /1,941**	1,862 / 1,578	1,966 / 1,695	2,066 / 1,774	1,424 / 1,191

(1) "Gross" reserves are before deduction of royalties. "Net" reserves are after deduction of royalties, which vary depending on prices, production rates and legislative changes. "Proved" reserves are those that appear with reasonable certainty to be recoverable under existing economic and operating conditions.

(2) "Proved plus probable" reserves are those that appear with reasonable certainty to be recoverable under existing and anticipated economic conditions plus that judgement portion of contiguous reserves that are interpreted to exist, from geological, engineering or similar information, with reasonable certainty.

(3) The Syncrude reserves are not considered "proved oil and gas reserves" under U.S. GAAP.

Land Holdings

	Developed Acreage				Undeveloped Acreage			
	2000		1999		2000		1999	
(thousands of acres)	Gross	Net	Gross	Net	Gross	Net	Gross	Net
Western Canada								
Alberta	**2,903**	**1,616**	1,608	955	**4,672**	**3,664**	2,514	1,907
British Columbia	**25**	**14**	0	0	**176**	**116**	60	28
Saskatchewan	**41**	**28**	4	3	**478**	**453**	26	26
Manitoba	**0**	**0**	0	0	**2**	**2**	3	3
Oilsands (Alberta)	**274**	**128**	274	128	**80**	**28**	95	33
	3,243	**1,786**	1,886	1,086	**5,408**	**4,263**	2,698	1,997
Frontiers								
Beaufort Sea	**0**	**0**	0	0	**422**	**118**	422	118
Yukon and N.W.T.	**6**	**0**	0	0	**30**	**19**	30	19
Mackenzie Delta	**3**	**1**	6	0	**634**	**158**	636	196
Arctic Islands	**0**	**0**	0	0	**16**	**2**	450	63
Nunavut	**0**	**0**	0	0	**434**	**60**	0	0
	9	**1**	6	0	**1,536**	**357**	1,538	396
East Coast	**0**	**0**	0	0	**8,678**	**4,293**	8,671	4,285
	0	**0**	0	0	**8,678**	**4,293**	8,671	4,285
International								
Indonesia	**424**	**218**	367	192	**9,194**	**6,344**	10,633	7,885
Netherlands	**2,090**	**371**	1,644	295	**395**	**168**	502	202
United States	**17**	**4**	0	0	**419**	**328**	800	518
Other	**21**	**3**	0	0	**2,544**	**823**	2,381	652
	2,552	**596**	2,011	487	**12,552**	**7,663**	14,316	9,257
Total	**5,804**	**2,383**	3,903	1,573	**28,174**	**16,576**	27,223	15,935

"Gross acres" refers to land or wells in which Gulf owns an interest; "net acres" is the sum of the fractional interests owned by Gulf in gross lands or wells. "Developed acreage" refers to the acreage to which the Company has assigned proved reserves. "Undeveloped acreage" refers to the acreage to which the Company has not assigned any proved reserves. The table does not include approximately 325,000 gross acres in 2000 and 1999 in which royalty interests are held in Indonesia.

Wells Drilled

			1999 (gross/net)	1998 (gross/net)	1997 (gross/net)	1996 (gross/net)
Western Canada						
Exploratory wells:	Oil	**49 / 42**	18 / 12	20 / 11	45 / 39	44 / 40
	Gas	**59 / 32**	59 / 8	67 / 34	55 / 42	44 / 35
	Dry	**32 / 22**	37 / 13	45 / 26	77 / 65	52 / 42
		140 / 96	114 / 33	132 / 71	177 /146	140 /117
Development wells:	Oil	**127 /102**	40 / 25	50 / 32	166 /133	91 / 61
	Gas	**18 / 12**	14 / 6	115 / 98	247 /233	146 / 76
	Dry	**14 / 10**	8 / 3	20 / 10	50 / 30	55 / 39
		159 /124	62 / 34	185 /140	463 /396	292 /176
United States						
Exploratory wells:	Oil	**0 / 0**	0 / 0	0 / 0	2 / 1	4 / 3
	Gas	**0 / 0**	0 / 0	0 / 0	0 / 0	0 / 0
	Dry	**0 / 0**	0 / 0	2 / 2	11 / 8	16 / 9
		0 / 0	0 / 0	2 / 2	13 / 9	20 / 12
Indonesia						
Exploratory wells:	Oil	**3 / 1**	0 / 0	4 / 2	4 / 3	1 / 1
	Gas	**1 / 1**	4 / 3	10 / 6	3 / 1	2 / 1
	Dry	**6 / 3**	1 / 0	10 / 5	5 / 4	2 / 1
		10 / 5	5 / 3	24 / 13	12 / 8	5 / 3
Development wells:	Oil	**40 / 24**	14 / 8	18 / 10	28 / 13	12 / 6
	Gas	**1 / 1**	0 / 0	6 / 3	2 / 1	0 / 0
	Dry	**0 / 0**	1 / 1	0 / 0	1 / 0	2 / 1
		41 / 25	15 / 9	24 / 13	31 / 14	14 / 7
Netherlands						
Exploratory wells:	Oil	**0 / 0**	0 / 0	0 / 0	0 / 0	0 / 0
	Gas	**4 / 2**	3 / 1	4 / 1	1 / 0	0 / 0
	Dry	**1 / 0**	1 / 1	2 / 0	2 / 0	0 / 0
		5 / 2	4 / 2	6 / 1	3 / 0	0 / 0
Development wells:	Oil	**0 / 0**	0 / 0	0 / 0	0 / 0	0 / 0
	Gas	**1 / 0**	1 / 0	8 / 1	7 / 1	0 / 0
	Dry	**0 / 0**	1 / 0	0 / 0	0 / 0	0 / 0
		1 / 0	2 / 0	8 / 1	7 / 1	0 / 0
Other International						
Exploratory wells:	Oil	**0 / 0**	0 / 0	3 / 2	6 / 1	0 / 0
	Gas	**0 / 0**	2 / 0	16 / 1	34 / 2	0 / 0
	Dry	**0 / 0**	5 / 0	22 / 3	31 / 2	0 / 0
		0 / 0	7 / 0	41 / 6	71 / 5	0 / 0
Development wells:	Oil	**0 / 0**	0 / 0	9 / 1	15 / 1	0 / 0
	Gas	**0 / 0**	9 / 1	18 / 1	28 / 1	0 / 0
	Dry	**0 / 0**	1 / 0	0 / 0	0 / 0	0 / 0
		0 / 0	10 / 1	27 / 2	43 / 2	0 / 0
Total Wells Drilled		**356 /252**	219 / 82	449 /249	820 /581	471 / 315

"Gross" refers to land or wells in which Gulf owns a working interest; "net" is the sum of the fractional working interests owned by Gulf in gross lands or wells.

(continues on p. 79)

Results of Oil and Gas Operations (unaudited)	Year Ended December 31, 2000	International			
	North [illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Net revenue derived from proved oil and gas reserves during the year	$ 1,105	$ 512	$ 97	$ 7	$ 1,721
Less: Production costs	204	49	21	3	277
Exploration expenses	44	27	10	4	85
Depreciation, depletion and amortization	411	103	38	9	561
Income tax expense (recovery)	171	180	6	(1)	356
Results of operations from producing activities	$ 275	$ 153	$ 22	$ (8)	$ 442

(1) Amounts in 1998 have been restated for the retroactive application of a change in the accounting policy for income taxes (see Note 1 of the Consolidated Financial Statements).

Costs Incurred (unaudited)	Year Ended December 31, 2000	International			
	North America	Indonesia	Netherlands	Other	Total
Costs incurred (capitalized and expensed during the year) for:					
Property acquisitions:					
Proved	$ 2,558	$ 0	$ 0	$ 144	$ 2,702
Unproved	718	0	0	1	719
Exploration	79	41	25	6	151
Development [(1)]	266	85	35	3	389
	$ 3,621	$ 126	$ 60	$ 154	$ 3,961
(1) Includes amounts for capitalized injection:	$ 26				

Capitalized Costs (unaudited)	Year Ended December 31, 2000	International			
	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Proved properties	$ 6,306	$ 1,517	$ 277	$ 183	$ 8,283
Unproved properties	747	270	233	20	1,270
Support facilities	92	0	16	1	109
Incomplete wells and facilities	19	59	27	15	120
	7,164	1,846	553	219	9,782
Less related accumulated depreciation, depletion and amortization	1,706	712	115	60	2,593
	$ 5,458	$ 1,134	$ 438	$ 159	$ 7,189

(1) North America includes $459 million of unproved properties in frontier areas (unchanged from 1999 and 1998); and net capitalized costs in the United States of $8 million, $39 million and $42 million at December 31, 2000, 1999 and 1998, respectively.

(2) Amounts in 1998 have been restated for the retroactive application of a change in the accounting policy for income taxes (see Note 1 of the Consolidated Financial Statements).

Year Ended December 31, 1999					Year Ended December 31, 1998[1]				
	International					International			
North America	Indonesia	Netherlands	Other	Total	North America	Indonesia	Netherlands	Other	Total
$ 623	$ 302	$ 83	$ 47	$ 1,055	$ 563	$ 122	$ 93	$ 103	$ 881
176	53	24	16	269	222	41	25	34	322
31	17	16	1	65	102	50	10	28	190
263	103	45	17	428	841	71	62	70	1,044
60	44	2	1	107	(176)	(5)	(1)	(3)	(185)
$ 93	$ 85	$ (4)	$ 12	$ 186	$ (426)	$ (35)	$ (3)	$ (26)	$ (490)

Year Ended December 31, 1999					Year Ended December 31, 1998				
	International					International			
North America[1]	Indonesia	Netherlands	Other	Total	North America[1]	Indonesia	Netherlands	Other	Total
$ 26	$ 0	$ 0	$ 0	$ 26	$ 2	$ 0	$ 0	$ 42	$ 44
6	0	0	0	6	13	2	0	9	24
32	46	32	8	118	110	131	12	70	323
130	52	13	7	202	244	151	38	23	456
$ 194	$ 98	$ 45	$ 15	$ 352	$ 369	$ 284	$ 50	$ 144	$ 847
$ 11					$ 15				

Year Ended December 31, 1999					Year Ended December 31, 1998[2]				
	International					International			
North America[1]	Indonesia	Netherlands	Other	Total	North America[1]	Indonesia	Netherlands	Other	Total
$ 2,992	$ 1,370	$ 245	$ 58	$ 4,665	$ 3,933	$ 1,359	$ 388	$ 346	$ 6,026
754	259	251	16	1,280	722	274	240	21	1,257
25	0	18	0	43	25	0	18	3	46
23	50	9	17	99	11	80	6	37	134
3,794	1,679	523	91	6,087	4,691	1,713	652	407	7,463
1,406	586	91	60	2,143	1,968	515	109	98	2,690
$ 2,388	$ 1,093	$ 432	$ 31	$ 3,944	$ 2,723	$ 1,198	$ 543	$ 309	$ 4,773

Standardized Measure (unaudited)

Standardized measure of discounted future net cash flows relating to proved reserves[1]

The standardized measure for calculating the present value of future net cash flows from proved oil and gas reserves is based on current costs and prices and a ten per cent discount factor as prescribed by the FASB.

Accordingly, the estimated future net cash inflows were computed by applying selling prices prevailing at December 31 for crude oil and during the month of December for other products to the estimated future production of proved reserves. Estimated future expenditures to be incurred in developing and producing proved reserves are based upon average costs incurred in each year presented and assume the continuation of economic conditions existing at the end of each year presented.

Although these calculations have been prepared according to the standards described above, it should be emphasized that due to the number of assumptions and estimates required in the calculation, the amounts are not indicative of the amount of net revenue that the Company expects to receive in future years. They are also not indicative of the current value or future earnings that may be realized from the production of proved reserves, nor should it be assumed that they represent the fair market value of the reserves or of the oil and gas properties.

Although the calculations are based on existing economic conditions at each year-end, such economic conditions have changed and may continue to change significantly due to events such as the continuing changes in international crude oil availability and prices, the changing North American natural gas market, and changes in government policies and regulations. While the calculations are based on the Company's understanding of the established FASB guidelines, there are numerous other equally valid assumptions under which these estimates could be made that would produce significantly different results.

	Year Ended December 31, 2000				
Standardized Measure			International		
Future cash inflows	$ 20,408	$ 5,457	$ 619	$ 229	$ 26,713
Future development costs	(707)	(417)	(194)	(67)	(1,385)
Future production costs	(3,325)	(670)	(158)	(72)	(4,225)
Future wellhead taxes	(94)	0	0	(8)	(102)
Future income taxes	(5,775)	(1,856)	(29)	(3)	(7,663)
Future net cash inflows	10,507	2,514	238	79	13,338
10% annual discount for estimated timing of cash flows	(4,727)	(1,260)	(42)	(29)	(6,058)
Standardized measure of discounted future net cash flows	$ 5,780	$ 1,254	$ 196	$ 50	$ 7,280
Minority interest's share of standardized measure of discounted net cash flow relating to proved reserves	$ 0	$ 346	$ 0	$ 0	$ 346

(1) Proved reserves and the related net cash flows from Gulf's 9.03 per cent interest in the Syncrude Project are not included in the standardized measure calculation.

Changes in the Standardized Measure during the Year (unaudited)

Years ended December 31 (millions of dollars)	2000	1999	199
Sales of oil and gas produced, net of production costs	**$ (1,385)**	$ (807)	$ (532)
Development costs incurred during the year	**377**	161	377
Sales of reserves in place	**(251)**	(140)	(345)
Purchases of reserves in place	**4,780**	27	(23)
Extensions, discoveries and improved recovery, less related costs	**645**	307	184
Additions due to "Other"(1)	**122**	55	11
Revisions of previous quantity and timing estimates(2)	**(753)**	25	(242)
Price and cost changes			
Selling prices	**2,973**	3,090	(853)
Producing costs	**(188)**	(15)	(57)
Development costs	**38**	(93)	(44)
Accretion of discount	**424**	201	326
Other	**43**	(214)	190
Change in income taxes	**(2,787)**	(1,167)	405
Net change	**4,038**	1,430	(603)
Balance at beginning of year	**3,242**	1,812	2,415
Balance at end of year	**$ 7,280**	$ 3,242	$ 1,812

(1) Under SFAS 69, additions due to "Other" would be considered part of revisions of previous quantity and timing estimates.

(2) Includes the impact of changes in royalties which are in part price dependent.

Year Ended December 31, 1999					Year Ended December 31, 1998				
	International					International			
North America	Indonesia	Netherlands	Other	Total	North America	Indonesia	Netherlands	Other	Total
$ 7,179	$ 4,458	$ 314	$ 10	$ 11,961	$ 5,335	$ 1,555	$ 323	$ 460	$ 7,673
(642)	(446)	(165)	0	(1,253)	(560)	(389)	(132)	(96)	(1,177)
(1,729)	(525)	(121)	(3)	(2,378)	(2,091)	(497)	(134)	(144)	(2,866)
(53)	(25)	0	0	(78)	(36)	(8)	0	(16)	(60)
(1,375)	(1,334)	0	(3)	(2,712)	(535)	(51)	0	(54)	(640)
3,380	2,128	28	4	5,540	2,113	610	57	150	2,930
(1,367)	(937)	8	(2)	(2,298)	(756)	(299)	(3)	(60)	(1,118)
$ 2,013	$ 1,191	$ 36	$ 2	$ 3,242	$ 1,357	$ 311	$ 54	$ 90	$ 1,812
$ 0	$ 329	$ 0	$ 0	$ 329	$ 0	$ 86	$ 0	$ 0	$ 86

Directors

Robert Allen (1995) (1)(3)
Managing Partner, Challenge Investments Partners
Houston, Texas

Richard H. Auchinleck (1998)
President and Chief Executive Officer
Gulf Canada Resources Limited

Stanley H. Hartt (1993) (2)(3)
Chairman, Salomon Smith Barney Canada Inc.
Toronto, Ontario

S. Barry Jackson (2000)
Corporate Director and Business Advisor
Calgary, Alberta

H. Earl Joudrie, Chairman of the Board (1993) (3)
Chairman, Gulf Canada Resources Limited
Corporate Director
Toronto, Ontario

T. Michael Long (1995) (2)(3)
General Partner, Brown Brothers Harriman & Co.
Greenwich, Connecticut

The Right Honourable
Donald F. Mazankowski (1993) (2)(3)
Corporate Director and Business Consultant
Vegreville, Alberta

A.H. Michell (1993) (1)
Corporate Director and Business Consultant
Montreal, Quebec

Walter B. O'Donoghue, Q.C. (1995) (1)
Partner, Bennett Jones
Calgary, Alberta

Maureen J. Sabia (1998) (2)
Corporate Director and Business Consultant
Toronto, Ontario

Harry G. Schaefer (2000) (1)
Corporate Director and Business Advisor
Toronto, Ontario

Arthur H. Willms (2000) (2)
Corporate Director
Vancouver, British Columbia

( ) Year appointed director
(1) Member Audit Committee
(2) Member Compensation Committee
(3) Member Executive Committee

Officers

Richard H. Auchinleck
President and Chief Executive Officer

Dan Bailie
Vice President, Domestic Operations

Marcel R. Coutu
Senior Vice President and Chief Financial Officer

Doug Gardner
Vice President, Exploration

Murray Hesje
Vice President and Controller

Thomas G. Hinton
Vice President and Treasurer

Ron McIntosh
Senior Vice President and Chief Operating Officer

Henry W. Sykes
Executive Vice President, Business Development

Lynne Walker
Senior Vice President, Corporate

Barb Williams
Vice President, Administration

HEAD OFFICE

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Netherlands
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2514 HD, Den Haag
Telephone: 31-70/ 342-4545

HUMAN RESOURCES

As of December 31, 2000, Gulf directly employed 1,128 people.

ORDINARY SHARES AND PREFERENCE SHARES

As of December 31, 2000, Gulf Canada Resources Limited had 541,807,075 Ordinary Shares, 85,504,557 Series 1 Senior Preference Shares, and 300 Senior 2 Preference Shares outstanding.

Also as of December 31, 2000, Gulf had approximately 9,448 holders of Ordinary Shares (registered and predecessor company shareholders) and approximately 5,522 holders of Series 1 Senior Preference Shares.

STOCK EXCHANGE LISTINGS

The Ordinary and Series 1 Senior Preference Shares are listed on the Toronto Stock Exchange in Canada and on the New York Stock Exchange in the United States. The symbol for the Company is GOU.

AUDITORS

Ernst & Young LLP
Ernst & Young Tower
1000, 440 – 2nd Avenue S.W.
Calgary, Alberta T2P 5E9

REGISTRARS AND TRANSFER AGENTS

The Registrars and Transfer Agents for the Gulf Canada Resources Limited Ordinary Shares and Senior Preference Shares are Computershare Trust Company of Canada at its principal offices in Vancouver, Calgary, Winnipeg, Toronto, Montreal, and Halifax in Canada, and Chase Mellon Shareholder Services, L.L.C., 120 Broadway, New York, New York, in the United States.

FOR ADDITIONAL INFORMATION

Our Transfer Agent can assist you with changes of address, lost share certificates, transfers of share certificates, estate settlements and a number of other inquiries. Please contact them directly at:

COMPUTERSHARE TRUST
COMPANY OF CANADA
600, 530 - 8th Avenue S.W.
Calgary, AB T2P 3S8
Attention: Shareholder Communications
Toll Free (Canada):
1-888-267-6555
Toll Free (Canada and the United States):
1-800-558-0046
E-mail: caregistryinfo@computershare.com
Website: www.computershare.com

Additional information, including investor relations inquiries and copies of the 2000 Gulf Canada Resources Annual Report and Annual Information Form may be obtained from:

GULF CANADA RESOURCES LIMITED
Investor Relations
P.O. Box 130
401 – 9th Avenue S.W.
Calgary, Alberta T2P 2H7
Telephone: (403) 233-4000
Email: investor_relations@gulf.ca
Website: www.gulf.ca

ANNUAL MEETING

The annual meeting of shareholders will be held at 2:00 p.m. local time on Tuesday, May 8, 2001 at:

Gulf Auditorium
3rd floor, Gulf Canada Square
401 – 9th Avenue S.W.
Calgary, Alberta
Shareholders are encouraged to attend.

Glossary of Terms

b	barrel
boe	barrel of oil equivalent
mboe	thousand barrels of oil equivalent
mmboe	million barrels of oil equivalent
mcf	thousand cubic feet (natural gas)
mmcf	million cubic feet (natural gas)
bcf	billion cubic feet (natural gas)
/d	daily rate

boe Calculations

Throughout this report all boe calculations are based on the following:

10 thousand cubic feet of natural gas = 1 barrel of oil in North America

6 thousand cubic feet of natural gas = 1 barrel of oil in the international segment

1 barrel of natural gas liquids = 1 barrel of oil

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